METHODS OF RETAIL MANAGEMENT

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PREFACE

No one can tell another how to run his business, yet the greatest help any manager can have in operating his own business to the best advantage must be obtained from the experiences and studies of others.

All education, whether obtained in the class room or in that universal institution commonly known as the school of hard knocks, is based on benefitting from experience, both the experience of others and the experience of the individual.

The benefit any one of us gains from his own experience and study is unquestionably essential, but decidedly limited in scope; while the benefit to be derived from the experiences and studies of others is equally essential and all but limitless in scope.

Under the increasingly complex conditions of business competition, each of us becomes more and more dependent upon the results of the experiences and studies of others. Invariably, however, these must be absorbed by the individual through his own thinking, made as much a part of himself as the results of his own experience and study, and applied by him in accordance with the demands of the conditions under which he operates. The road to successful business is not paved with blocks of imitation, but with blocks of intelligent application.

This book on Methods of Retail Management has been developed out of an extensive contact with practical business plus an intensive investigation. The objective has been to find and formulate the basic principles of successful management that can be applied most profitably by average business men, especially those engaged in the important function of retail distribution.

The thoughts kept uppermost in mind are:

First, there is no phase of business success which the average merchant has had less opportunity to study carefully and has more need to understand thoroughly, than the fundamental principles underlying his methods of management and control.

Second, merchants generally are so completely occupied with numerous duties and daily routine that scant time is available for the necessary study of the basic principles upon which the success of their efforts depends in increasingly large measure. The problem lies in making the best possible use of the available time, remembering that "where there is a will, there is a way."

Third, the results of the experiences and studies of others in methods of management can be made generally available to individual merchants only through the efforts of those who apply themselves directly to the job of first gathering and classifying them, and then formulating the principles which have been proved to be fundamentally sound and profitable in practice.

The book is designed to be studied, rather than just read. It is recommended, therefore, that the first reading be done without any particular thought to the possibility of immediate application to the individual business.

Indeed, it will prove most helpful to think about the various presentations from the standpoint of their general soundness and practicability for other stores, even though this leads at first to the conclusion that the principles cannot be applied to the reader's own business because it operates under peculiar conditions and is different.

The real benefit will come when and only when continued thinking brings recognition of applications that can be made profitably to the individual business, regardless of whether or not they are presented specifically in the book. Such applications may come to pass without realizing that they have grown out of the thinking stimulated by the book, and that is well.

Another important point is that thinking about reasons why the specific presentations do not apply to the reader's own business will lead to a better understanding of the principle involved, quite as surely as will more immediate thinking about their direct application. Either way, the benefits must come through the thinking that is done. This is because the really helpful conclusions are those we reach for ourselves through our own thinking, not those which others reach for us. The one thing to guard against is reaching final conclusions too quickly or without having thought the thing clear through with a careful consideration of all the pros and cons.

A receptive mental attitude is the most necessary part of any helpful study. Each individual merchant is so close to the details of his own business that it often is easier for him to see why a given principle does not apply than to see why it does apply. That is the reason for recommending that the first reading be done without thought of immediate or direct application.

Anyone can take up this study in methods of management with a receptive mental attitude toward thoroughly understanding the principles discussed, letting the matter of application to the individual business take care of itself as a result of that understanding.

In the hope that this procedure will be followed and that the results of the consequent thinking will prove helpful to the cause of more profitable merchandising, the book has been prepared and is offered for your thoughtful consideration.

KANSAS CITY, MO.
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WILLIAM E. KOCH

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INTRODUCTION

THE AGE OF MANAGEMENT

The external conditions that influence the success of the retailer become increasingly exacting. Wide price range has given way to buying and selling prices that become less and less flexible. The cost of doing business has increased greatly. Competition has developed until it is stronger and keener than ever before Merchandising profit hovers dangerously close to the vanishing point. A higher standard of managerial ability and better methods of management are now necessary in successful retailing Retail management is based on principles that are becoming more definitely recognized and applied. Business is developng more and more into problems in methods of management to increase the profit derived from a given volume of sales. This is an age of management.

A peculiar condition confronts the retailer.

Taking the country as a whole, we have enjoyed a longer continued period of good sales volume than was ever before recorded.

At the same time, we have reaped a crop of business failures which, also, has the ear marks of a record breaker.

Unusually extensive failures in times of unusually active business; truly, a peculiar condition!

We have experienced what has well been termed a *profitless prosperity*. Why is this?

The question is worth thinking about because looking for the possible causes of apparent effects often proves helpful. It may do so in the present instance. It may lead to a more profitable use of existing conditions.

TWO SETS OF INFLUENCES

One of the things that is fairly sure to invite more analytic thinking, when we ask ourselves why profits have dwindled while sales have increased, is the well-known fact that our individual accomplishments are the net result of two distinct sets of influences:

1. Influences that are *within* the power of the individual to control.
2. Influences that are *beyond* the power of the individual to control.

We speak of them as *influences*, rather than *conditions*, because our present interest is focused exclusively on such conditions as really have an *influence* on the success of the individual and, more directly, on the success of the individual retailer.

These two sets of influences may be referred to quite aptly as:

1. Influences of *internal* origin.
2. Influences of *external* origin.

For short, we can call them "internal" and "external" influences.

COMMODITY PRICES AS EXTERNAL INFLUENCES

Consider, for example, the influence of rising or declining commodity prices. That, clearly, is beyond the power of the individual retailer to control. It is, therefore, an *external* influence.

Some merchants—good ones, too—occasionally have patted themselves on the back with what might be termed a *look-at-me* complex while they were operating under the helpful influence of that powerful tonic of commerce,—rising commodity prices.

Yes, the external influence of rising prices often has served as a friendly commercial tide which carried the merchant somewhat automatically into green pastures of business, where he could browse more or less contentedly until *declining* prices came along to carry him with equal sureness to the commercial dry dock.

Other merchants, however, make more effective use of the existing conditions. They manage to derive greater benefit from the helpful external influences that happen along, and to be less swayed when the times shift to what are commonly known as "periods of depression."

Obviously, it amounts simply to this: When the external influences are the same for each of several competitors, the difference in their accomplishments must be in proportion to the applied ability. And ability, in its broadest sense, tells the whole story of *internal influence.*

Which merely reminds us more forcibly of this evident fact: *When external influences become more exacting, a greater demand is made on internal influences to accomplish an equal measure of success.*

LESS ABILITY REQUIRED IN "GOOD OLD DAYS"

There is no thought of applying the spirit of complaint that often is found in a reference to "good old days." Only for the purpose of helping us get a better view of the present conditions and their demands upon us, need we remind ourselves of the following:

Many a man who still wears the retailer's harness can recall a condition of much wider variation in buying and selling prices, considerably lower cost of doing business, and relatively scant competition.

We all know, of course, that any analysis of the past is worth while only when it helps us more clearly to recognize the needs of the present and the future, and to profit from that recognition.

Accordingly, the well-sounding "good old days" are not mentioned as having been better, but as having required relatively less of what we are calling *internal influences;* as indicating that a higher standard of *managerial ability* is necessary for successful retailing now than in the past.

In former days, natural or inherent ability, with training that was limited almost exclusively to the process of *practical experience,* often sufficed to bring a fair measure of success in retailing.

In those days, to say the least, hit-or-miss methods more frequently got by. Less need existed for definite training in methods of retail management. The biggest part of the retailer's job was in *doing*.

A decidedly different condition confronts us today. Wide price range has given way to buying and selling prices that become less and less flexible. The cost of doing business has increased greatly. Competition has developed until it is stronger and keener than ever before. Merchandising profit hovers dangerously close to the vanishing point.

Methods of retail management that served fairly well in the "good old days" are about as hopeless now as a row boat in an Atlantic squall.

This simply means, of course, that the demand of the times calls for more completely augmenting natural ability and practical experience with thoughtful study and continued striving for improvement in methods of operation, in methods of management. It means that the "new day" in retailing is here.

THE PROFESSION OF BUSINESS MANAGEMENT

We often are told that business management is being developed rapidly to the plane of a profession. Just what does this mean?

It means that modern business management is based on certain principles (not rules) that are being gathered in a great net of investigation and study; and which gradually are becoming more definitely recognized, more clearly understood, and more profitably applied.

It means that the most permanently successful business management of today is based on principles that can be and are being taught and learned through definite schooling and through out-of-the-business training, just as the basic principles that underlie the commonly recognized professions are being taught and learned.

It means, too, that business men generally are more seriously recognizing the social-service responsibility of

their enterprise. Such recognition is, I believe, the chief characteristic of the professional attitude which stands as a keystone in the arch of every profession.

OUR GREAT SCHOOLS OF BUSINESS ADMINISTRATION

Consider, incidentally, the progress and accomplishment of our great schools of business administration. Especially in view of their relatively few years of operation. is it anything short of phenomenal?

Their rapid growth, the remarkable developments in their teaching materials and teaching methods, and the results obtained—the "proof of the pudding"—all indicate the soundness of the statement that business management is being developed rapidly to the plane of a profession.

It is not so many years ago, you know, since preparation for entering any of the generally recognized professions was accomplished largely, and sometimes entirely, without the aid of definite schooling.

That day is passed for every realm of professional service, and it is passing for business management just as rapidly as the characteristics of a profession are woven into this important phase of social service.

THE PLACE TO LEARN BUSINESS IS IN BUSINESS

But the remarkable results obtained through schooling in business management have by no means exploded the long-established theory that the only place to learn any business is *in* that business.

These results have clearly demonstrated, however, that the learning of basic principles, as a preparation for learning business in business, can be and is being accomplished more easily, and quickly, and effectively in our modern schools of commerce than it ever has been or ever could be accomplished through business experience exclusively.

Schooling neither replaces practical experience nor lessens the need for it. Practical schooling serves merely as a preparation for making the training obtained through practical experience more effective—*more practical.*

The properly schooled man simply enters the field of actual business with an equipment of certain definite advantages which may be outlined briefly as:

1. A better perspective of business as a whole; an essential for the soundest foundation on which to build.
2. A clearer conception of the basic principles upon which permanent success in business depends, another fundamental essential.
3. A greater ability, as a result of his schooling, to analyze situations accurately and reach dependable conclusions.
4. A broader vision of possibilities, as a result of his guided thinking, which serves him in creating situations and as an effective urge to accomplishment.

There is, of course, a lot of half-baked effort devoted to the cause of business education. Most anyone would expect that because we know so well that perfection in human affairs is a point constantly to be strived for, never to be reached.

And isn't that a fortunate situation? After all, isn't striving for improvement just about the essence of whatever it is that seems to make life most worth living?

So we stand by the claim that definite schooling, as a practical preparation for the better learning of business in business, faulty though it may be in spots, is moving in the right direction and already has reached a stage of well-worth-whileness for those who use it consistently.

HOW IT HELPS THE RETAILER

A question may arise as to whether the various developments that tend to place business management on the plane of a profession can be of practical assistance to the man already engaged in business, and without regard to how long he may have been in the game.

We have convincing proof that there must be *something* in the way of fundamental principles that can be studied carefully, become more completely understood, and be put to more profitable use in any business.

Of course, these principles have grown out of practical business experience. In fact, they have grown out of the combined experiences of many successful business men over a long extended time. That is why the results contain so much that is helpful and suitable for use in steering an individual business toward the goal of satisfactory profit.

Nor has all the gathering and formulating (the *boiling down*) been accomplished through the agency of the business school. Many a progressive and successful business man has been and is devoting a portion of his time and effort to the necessary research and analysis; another reason why the net results are practical and helpful.

Consider also the spread of helpful information made possible through business publications and business periodicals, and the trend of the time toward mixing an increasing portion of serious and constructive thinking into the programs of business conventions and conferences.

Surely, these and all other well directed efforts stand as valuable contributions in the development of a clearer recognition of sound business principles, and a better understanding of the opportunities in their profitable application. "*The Lord helps those who help themselves.*"

MORE TO BE LEARNED

The great lesson, it seems to me, lies in more completely realizing that no individual ever reaches the full limit of his or her possibilities; that there is and always will be more to be learned.

Also, that those who derive a consistent portion of the available benefits are the ones who, through inherent capacity and cultivated receptiveness, are in position to obtain and to apply—to seek and to recognize—that which is helpful in his or her own case, and use it.

A needless comment, does someone say? For all who are making the best possible use of their opportunities in the way of continued striving for improvement, referring

now particularly to modern methods of business management and control, of course it is.

For others, it may serve to emphasize the fact that inherent capacity is an *external* influence completely beyond the power of the individual to control; while cultivated receptiveness is an *internal* influence entirely within the power of the individual to control.

THIS IS AN AGE OF MANAGEMENT

Today's "battle of business" is developing more and more into a series of problems in modern methods of management. And this is as true in retailing as in any other phase of business activity.

This is not to imply, however, that careful buying and aggressive selling are becoming either less necessary or less important.

It means, rather, that the merchant of today is confronted with problems that are deeper—*more fundamental*—than those commonly met in buying and selling as such.

Every tendency of external influences toward the reduction of profit indicates the need for *something* that will make the operations of buying and selling more effective, *more profitable.*

That *something* is to be found in *management*—in more productive methods of management—in a better use of the internal influences which are within the power of the individual to control.

Besides, the real competition is not for sales volume, but for *profit volume.* Sales merely are the means to the desired end of profit.

The general situation of today calls for increasing the profit derived from a given volume of sales. And that, again, means *management.*

Business management is the directing force through which buying and selling are propelled toward or away from the goal of profit.

Truly, this is an age of management; and modern methods of management are nothing more than the improved tools of the manager.

CHAPTER I

THE PROFIT-MAKING PROGRAM

The "finished product" of the retail store is profit A definite process is involved in producing profit. This process can be studied and analyzed to center attention on the essential elements and determine whether or not they are functioning to the best advantage in reaching the goal of profit.

Planning, acting and controlling are the basic essentials in every producing process. Deliberate planning must be centered on the vital elements in the process of producing. In retailing, these pertain to sales quotas, stock limits, mark-ups and expense budgets. The complete "basic outline of a profit-making program" serves as a helpful guide.

We hear a lot about planning ahead in business. We think a lot about it, too. The really big question is: How much more can we think about it *profitably?*

One thing is certain: Wherever anything is accomplished, there is some measure of a program or plan of operation. Were it not for the unquestionable fact that there is a vast difference in programs, our planning for profit would have reached the stage of perfection long ago. We long since would have come to the limit of our possibilities.

The outstanding importance of the profit-making program is sure to grow upon us when we consider the extent to which it determines how internal and external influences, as discussed in our introduction, work together in the process of profit producing.

Just as Hamlet said, "The play's the thing;" so can the merchant say, "The plan's the thing."

In many stores, of course, the problem is not to have a profit-making program, but to have a *better* one. The problem of possible improvement is always with us.

THE "FINISHED PRODUCT" OF THE STORE

Seeing many retail stores in operation and observing the extent to which they do or do not take advantage of their opportunities in definite planning for profit, often reminds me of an impressive incident.

A small group of business men were at ease at their club in a Michigan town of medium size. One of the group was a manufacturer who was known to be enjoying more than ordinary success.

His plant had been in operation about fifteen years. He had started with a capital of an even $10,000 which was represented by exactly that figure in his Capital Stock account.

At the time of this incident, his Capital Stock account still read the same, $10,000; but his Surplus account registered a figure that was mighty close to the half-million mark, $486,000 in round numbers.

His companions at the club knew little about the details of the business. They only knew that some highly specialized types of machines were made and shipped to many sections of the United States, as well as to a number of foreign countries. They knew, however, that this manufacturer was prosperous and happy.

"Just what is it you make at your plant?" asked a member of the group.

Quick as a flash came the reply, "Profit, just profit!"

That manufacturer did not look upon the machines his factory turned out as the finished product of his business. Those machines were to him only a necessary factor in the production of his real "finished product," *profit.*

In this thought of the Michigan manufacturer, we find a point in common that applies to every commercial enterprise without regard to kind or size. Every business stands as a *manufacturing institution,* organized and operated for the definite purpose of turning out the *finished product of profit.*

The retail store is no exception to this rule. Profit is the bull's eye of every business target. The importance of

seeing the bull's eye clearly and aiming at it definitely is obvious.

THE PRODUCTION PHASE OF PROFIT

Now, if we agree with the Michigan manufacturer's point of view—if we agree that profit is the finished product of the retail store—we readily see that profit must be *produced*, and that it is important to recognize the *production phase* of profit.

Our profit may be in the "all encircling good," as we sometimes are told; but it must be *produced* before it is in useable form for any individual. Profit for the merchant must be *produced* as surely as usable electricity or grain or livestock or manufactured goods or anything else that ever is ours "to have and to hold." "But," some may ask, "of what practical value is this abstraction to the retailer?"

For one thing, it helps us to center our business thinking more definitely on the importance of the production phase of profit; to realize more clearly that the more consciously we recognize profit as a *product*, the more certainly can we produce it in satisfactory volume.

Furthermore, and of obvious importance, this recognition will assist us in avoiding the side-tracking danger which always confronts the merchant who plans and operates as if *sales* were the finished product of his business; and in following the lead of the real manager who thinks of sales only as a necessary factor in the production of his "finished product," *profit.*

Finally and of greatest importance, it helps us to realize more fully that profit, like every other product, involves a definite *producing process;* and that this process can be studied and analyzed, and outlined and studied again, just as can any other process, and with equally good results.

Such a study and analysis is bound to prove helpful because it centers our attention on the essential elements of the process, assists us in determining whether or not the essential elements are functioning to the best advantage

in our own business, and helps us to see just where the most profitable improvements are possible.

THE BASIC ESSENTIALS OF PROFIT PRODUCTION

A careful analysis on the part of a number of groups of practical business men at various business institute sessions has brought them invariably to the unanimous conclusion that there are three basic essentials in the process of producing retail profit. These essentials may be outlined as:

The profit-producing process
1. Planning
2. Acting
3. Controlling

"But," we may hear again, "these are nothing more than the basic essentials in every producing process."

Exactly so! On that obvious score, the one big point is that they are fully as basic and fully as essential in the process of producing retail profit as they are in every other form of producing; that the production of merchandising profit depends as much on how and to what extent these three basic essentials are applied as does the construction or production of a machine, a building, a spool of thread, or anything else.

We simply cannot get away from the fact that always and in all cases it is the *ratio* of planning and acting and controlling to each other, plus their *character* and *extent*, that determines accomplishment.

A shack is produced with relatively little planning and relatively scant controlling. Such a structure results chiefly from *action*. But a magnificent building never is produced without complete working plans and positive control of action to assure the production of the planned result.

Is not a parallel situation found in retailing? Do we not have retail stores that comparison would classify as the shacks and magnificent buildings of merchandising? (Referring, of course, to the business, not to the building.)

And is not this situation the result of the *character* and *extent* and *ratio* of the applied essentials, planning, acting, and controlling? Do not these three essentials determine all of the difference that ever can exist?

Can any merchant help deriving a benefit from occasionally checking-up on himself to find out whether or not the ever-present foundation of his success is as sound as it should be; whether or not the three basic essentials are functioning as effectively and harmoniously as they should in his own case?

One merchant had considered this trio of essentials but a few moments when he said: "*I see right now where I need the most mending, and it isn't in number two.*"

Many others have concluded, as did he, that the real way to increase their production of profit is to bring the standard of their planning and controlling up to the standard of their activities; that their *profit volume* is determined by the *character* and *extent* and *ratio* of their planning, acting, and controlling.

Planning, alone, never will do the job. Action, without planning, usually results in failure. Planned action, without control, is almost sure to miss the goal. Each essential demands its fair proportion of thought and effort, and it is fairly sure to obtain it under the influence of a definite profit-making program. The great question always is: Do our efforts *produce* as they should?

A PLAN OF PROCEDURE

A good profit-making program is a definite plan of procedure toward the goal of *maximum profit*, nothing more and nothing less.

Planning stands clearly as the first essential. Turn where we will, we find an abundance of convincing evidence to prove that success in any undertaking is largely in proportion to the character and extent of the deliberate or thoughtful planning that is done. Does this not show how necessary is *planning* in the process of profit producing?

Take a simple illustration. Perhaps we complain about a train that is running late. But when we stop to review the entire situation thoughtfully, we are more inclined to marvel at the way innumerable trains reach their destination practically on the dot. We then begin to wonder how this is possible.

Further consideration helps us to realize that the remarkable achievement of the railroads, though it may be far from perfect, is the result of careful planning for every detail of every trip.

We then realize, too, that this measure of success would be impossible without a completely planned schedule, together with definite means by which each train can measure *accurately and at frequent intervals,* its *actual* progress against its *planned* progress.

We see that success results not alone from *making* a plan, but also from *using* that plan effectively through consistent acting and controlling.

And we may begin to see more clearly than ever before that the basic principles underlying the successful development and practical use of a schedule or plan of procedure or program, remain exactly the same whether applied to running a railroad or managing a retail store.

All of which can but lead to the conclusion that a definite program for profit making is well worth while, and a determination to give the business the advantages resulting from more completely planning for profit.

THE ESSENCE OF SUCCESSFUL PLANNING

Turning our thoughts next to the requirements of successful planning with a view to getting at the real *essence,* we are practically sure to agree that it calls for a good mixture of *dependable information* and *consistent imagination.*

That is exactly why permanently successful business men are making more and more use of informative records to guide them in their management; records that reveal

real profit-making information which is combined with imagination in planning for the profit of the future.

Obviously, the value of any record depends entirely upon the information it reveals and the extent to which that information is put to practical use. It is equally true that informative records constitute the only means by which the manager can obtain the full benefit of his experiences to guide him in his conclusions and judgments.

We often hear business men say that *good judgment* is the essence of successful management. The saying is absolutely true. In fact, the only purpose of our combination of information and imagination is to make poor judgment good judgment, and good judgment better judgment. Unless it does that, it certainly is falling down on the job.

Furthermore, judgment and planning are exactly the same from the standpoint of depending on information and imagination; so the essence of successful planning may be given as *good judgment.*

The big point is that both information and imagination are necessary. Our job is to get the information and apply the imagination. When that is done, we are well on the way.

RELATION OF PLANNING TO SUCCESS

Of course we all know that in managing a retail store, as in every other undertaking, getting ahead is largely a matter of looking ahead; and that good planning is nothing more than good looking ahead.

We also know that everything done in and about the store must be planned, whether or not we recognize the planning. In other words, everything is planned, whether or not we realize it. Therefore, except for influences beyond our control, the success of the store depends finally upon the character and extent of our planning.

So it is obvious that when other things are equal, the more thought given to the proper combination of information and imagination *in planning*, the better will be the results *in profit.*

With the planning well done, successful action and successful control are much more sure to follow. It clearly is a case of "well begun is half done." And the more we think about it, the more we realize how powerful is the influence of the *first essential* upon the store's ultimate success or failure.

Turning a moment's thought to the real or fundamental cause of business failure, may prove helpful in this connection.

We are all familiar with the frequently mentioned causes of failure in business; such as incompetence, lack of capital, inexperience, unwise credits, speculation, neglect of business and personal extravagance.

Just analyze any of these. You are practically sure to conclude that the great fundamental cause which underlies them all is *lack of proper planning.*

Consider lack of capital, for example. Can that rightly be classed as a fundamental *cause* of failure? Isn't it, in reality, the *condition* of failure, rather than the cause?

Who ever heard of a business failure—a real one, I mean, not a "successful" one—so long as the business man had ample capital with which to pay his bills?

No, it isn't lack of capital that really *causes* business failure. It is, rather, the lack of *effective use of available capital;* and that, in turn, is due largely if not entirely to lack of proper planning.

FOUR "VITAL ORGANS"

So many things have to be planned and done, in and about the retail store, that much of the planning necessarily is accomplished subconsciously, through the force of habit, as it were. Only the most important phases of the profit-making program can be worked out deliberately and put down in black and white.

It therefore becomes necessary to select the highlights—the very *backbone*—the "vital organs" of the profit-producing process, and devote our more deliberate planning efforts directly to them.

But what are the highlights? What are the component parts of the *backbone* of successful retailing, which we may well class as the "vital organs" of the business?

When we spot these correctly, we certainly will have the important elements that need our most careful attention in planning for retail profit. We will have the key to the process of profit production.

Deliberate consideration of the question leads us quickly to the recognition of four fundamentals of the healthy business. We see that the store is sure to turn out its finished product of profit when it properly combines:

1. A healthy volume of sales.
2. A healthy stock of merchandise.
3. A healthy margin.
4. A healthy cost of doing business.

These, then, are the "vital organs" of the business—sales, stocks, margins, and expenses. When any one of these is in itself unhealthy or out of proportion to the others, the process of profit production is sure to be handicapped accordingly.

It becomes immediately apparent, therefore, that these four "vital organs" represent the factors which need special consideration in our planning; that they are the essential elements in planning for retail profit.

While planning, and when referring to these elements as planned, it is customary to designate them as sales quotas, stock limits, mark-ups, and expense budgets. The reason for so doing is or soon will be obvious.

Formulated for the *planning* division of a basic outline of successful retailing or the process of profit production, they might appear as follows:

$$\text{1. Planning for profit} \left\{ \begin{array}{l} \text{1. Sales quotas} \\ \text{2 Stock limits} \\ \text{3. Mark-ups} \\ \text{4. Expense budgets} \end{array} \right.$$

This sort of planning means determining, for the period ahead:

1. How much the sales for that period should and can be.

2. The minimum investment in merchandise with which this volume of sales should and can be reached.

3. How much mark-up is required to produce the necessary margin.

4. The minimum of expense or cost of doing business needed in accomplishing the planned volume of sales.

THE CASE IN FIGURES

Suppose we work it out with figures, just by way of illustration. The figures will have no further significance.

Let us assume that we are planning for the year ahead, and that we have sound reason to believe that we should and can produce a sales volume of $100,000 for the store as a whole. We then have our first division of *planning:* Sales quota, $100,000.

Our next step is to determine the consistent stock limit; the *minimum investment in merchandise* with which we should be able to reach our goal of $100,000 in sales. This is accomplished easily when we know how many times we should and can turn our stock during the year.

Suppose, for example, we expect to turn the stock four times. We then divide our sales quota by four and ascertain that the retail value of the average stock to be carried is $25,000. This also gives us, in the rough, the consistent stock limit for the store as a whole; but in terms of retail value.

When the stock limit is to be shown in terms of cost value, it will be necessary to know the average per cent of mark-up carried by the entire stock. Simply reducing the sales value by that percentage will give the desired cost value. (Another basis for arriving at the same figure is given in Chap. III.)

The per cent of mark-up also is necessary to complete the *planning* portion of the basic program. Suppose the average mark-up in this instance happens to be 25 per cent on sales or 33⅓ per cent on cost. This will place the mark-up on the entire stock at $25,000.

Then, in order to know the expected margin, we must know the total of the expected mark-downs or price reductions. If this happens to be 1½ per cent ($1,500) we establish our expected margin at $23,500.

We now come to the "last, but not least" element in *planning:* The expense budget or the expected cost of doing business. This needs to be carefully worked out. It should be in the form of a complete budget with every item of expense estimated as accurately as may be consistently possible.

Suppose such a budget to have been completed, and that it includes both visible and invisible expenses, thus covering such items as stock shrinkages, stock shortages and interest on investment. Suppose the total to be $23,400 or 23.4 per cent of the planned sales.

From this schedule we can see that our process of *profit* production becomes a process of *loss* production, as it would produce $800 less than nothing.

THE SCHEDULE IS REVISED

A situation such as the above simply tells us that we must do a better job of "cutting according to the cloth." Then, with the figures before us, we will be much more sure to revise the schedule so as to make it a real *profit producer.*

Of course it would be easy to say, "Well, we'll have to sell more." But let us assume that, in this instance, careful consideration has convinced us that both the sales quota and stock limit are as nearly right as they can be set in planning.

It then becomes obvious that the adjustment must be in the other portions of the program. The revised schedule might appear somewhat as follows:

Sales quota			$100,000—100 per cent	
Stock limit	Retail value		25,000	4 turns
	Cost value		18,750	
Mark-up ..		$25,000—25 per cent		
Mark-downs		1,000—1 per cent		
Expected margin			24,000—24 per cent	
Expense budget			21,700—21.7 per cent	

This program would produce a profit of \$2,300 or 2.3 per cent on sales. It calls for a reduction in both the mark-downs or price reductions and the cost of doing business, the latter reduction amounting to \$1,700 which may call for high efficiency in "cutting according to the cloth" and yet be well within the realm of possibility.

However, the above revision is made merely for the sake of an illustration. The important point is that the "vital organs" must function in a way that will produce the desired profit. The definite program helps us to see more clearly what the situation demands, and we are then in much better position to meet those demands.

THE ACTING DIVISION

Turning our attention briefly to the second of the three basic essentials in the profit-making program—*acting*—we readily see that this concerns the two great fundamentals in merchandising: Buying and selling.

All other activities of the business are incidental and closely related to one or the other of these two fundamentals. They can be analyzed and outlined, of course. They are not included in our present outline because they are incidental rather than basic.

Buying is to be considered from the angles of what, when, where, how much and at what price; while selling embodies the elements of displaying, advertising and personal contacts.

These essential elements in *acting* to produce profit will, therefore, comprise another section of our basic outline, and will appear as:

2. Acting to produce profit
   1. Buying
      - *a.* What
      - *b.* When
      - *c.* Where
      - *d.* How much
      - *e.* At what price
   2. Selling
      - *a.* Displaying
      - *b.* Advertising
      - *c.* Personal contacts

Perhaps because the importance of buying and selling has received greater and more persistent emphasis, this "core" of the profit-producing process has been more carefully and more completely developed in many stores than either the planning or the controlling divisions of the program.

And that is at least one of the reasons why the reward in profit often is out of line with the amount of thought and effort centered on *acting*, that is, on buying and selling.

THE CONTROLLING DIVISION

Finally, in outlining the last of our three basic essentials—*controlling*—we see the need for current or continued control, as well as for a definite check-up at the close of regular time periods. Let us call the former "current control" and the latter "period control."

Just to make sure that we have the same conception of what is meant by business control or control to assure profit, as it might be termed, let us briefly consider a simple illustration:

We all know that before any building can be constructed, it must appear more or less definitely in the mind of someone. If the building is to be well out of the shack class, a complete set of plans will be worked out to show what needs to be done to reach the desired goal. Therein, information and imagination are combined.

Acting comes next—constructing—bringing the planned result into reality.

But positive control always is necessary to assure the planned result. Each portion of the construction is compared with the plan to make sure that it is as it should be. Without such control, who could tell what the completed structure might be?

We found exactly the same principle embodied in the accomplishment of the train; the frequent comparison of *actual* progress with *planned* progress to assure the reaching of the predetermined goal. That principle also is the essence of business control.

Currently, we must give particular attention to the control of capital, merchandise and personnel. Periodically, we require the final check-up obtainable through a proper analysis and comparison of the four fundamental divisions of every business—assets, liabilities, incomes, and expenses.

The last section of our basic outline of successful retailing or the process of profit production, therefore, will appear as:

3. Controlling to assure profit
    1. Current control
        - a. Capital
        - b. Merchandise
        - c. Personnel
    2. Period control
        - a. Assets
        - b. Liabilities
        - c. Incomes
        - d. Expenses

To facilitate review and stimulate constructive thinking, the complete outline is shown on page 23.

What are believed to be the most important phases of the profit-making program—the phases that seem to deserve the most careful attention and study in view of the commonly encountered situations—will be discussed in detail in the following chapters.

BASIC OUTLINE OF A PROFIT-MAKING PROGRAM

Successful retailing or The process of profit production

- 1. Planning for profit
  - 1. Sales quotas
  - 2. Stock limits
  - 3. Mark-ups
  - 4. Expense budgets
- 2 Acting to produce profit
  - 1. Buying
    - *a.* What
    - *b.* When
    - *c.* Where
    - *d.* How much
    - *e.* At what price
  - 2. Selling
    - *a.* Displaying
    - *b.* Advertising
    - *c.* Personal contacts
- 3. Controlling to assure profit
  - 1. Current control
    - *a.* Capital
    - *b.* Merchandise
    - *c.* Personnel
  - 2. Period control
    - *a.* Assets
    - *b.* Liabilities
    - *c.* Incomes
    - *d.* Expenses

Result: The finished product of profit

FORM 1.

CHAPTER II

WHAT THE RETAILER CAN DO WITH SALES QUOTAS

The sales quota is necessary because a complete profit-producing program is impossible without it The principle involved in setting sales quotas is simple and easily applied. The consistency of the quota depends upon the character and extent of the information and imagination applied in setting it Four external and three internal influences are considered chiefly.

Divisions and subdivisions of the quota for the store as a whole are needed to get the best results. These pertain to merchandise, salesmen and time periods. The helpfulness of sales quotas is based upon the influence of a definite aim which provides the come-on-and-do-it urge and the means for developing interest through friendly contest.

Now, to dig into some of the more important details of successful planning for retail profit. To maintain a suitable background, these facts need especially to be kept constantly in mind:

1. That the complete profit-making process embodies the "big three" basic essentials: Planning, acting, and controlling.

2. That the "vital organs" which determine the health and productiveness of the business are represented by four essential elements in planning: Sales quotas, stock limits, mark-ups, and expense budgets.

WHERE SHOULD THE PLANNING BEGIN?

A question may arise as to whether it is better to start the planning with one or another of the essential elements. That is a question on which opinions may differ somewhat, and with reason.

Indeed, some even go beyond the elements and start their planning by first determining the amount of profit

the business should produce. Their reasoning seems to be based on the acknowledged fact that profit is the commercial goal of the store's operations, and that the factor of first importance is to know *what* we are going after and *how much of it.*

Some prefer to begin with the fixing of a stock limit to determine the amount that should be invested in merchandise. They probably are actuated by the well-known fact that much of the ordinarily available profit is lost through lack of positive stock control.

Others like to start with the expense budget, probably because the cost of doing business has a decidedly impressive way of making itself felt. That also may be the reason why so many merchants seem to devote the major portion of their planning effort to the expense phase of the business.

Most merchants who now practice deliberate or thoughtful planning evidently believe that the logical first step is to set a sales quota for the store as a whole; to determine the volume of sales the store should and can be made to produce in the time period covered by the plan.

No one, so far as I have seen, starts his planning with the element of margin. To some extent, at least, that may be due to the same reason that so frequently causes this essential to be neglected in planning and permitted, Topsy like, to just about take care of itself.

When we stop to consider how completely essential are *all* of the four "vital organs"—sales, stocks, margins, and expenses—we readily see that the point of beginning is of little consequence. Adjustments and corrections in each element are almost sure to be required before a satisfactory profit-making program is evolved. We may as well start with the sales quota.

WHY THE SALES QUOTA IS NECESSARY

First and foremost, the sales quota is necessary because a complete profit-producing program is impossible without it; because it is one of the essential elements in planning

for retail profit. But there are other reasons, and good ones, too.

As a matter of fact, the sales quota is well worth while even though a complete program for profit producing is not to be evolved. It is worthy of continued striving for improvement, too, though considered merely as a sales developer.

The sales quota is necessary, also, because, when properly applied, it serves as an effective aid in reaching maximum accomplishment through the increase of *enjoyment.* And the enjoyment phase of selling is highly important because, as we all know so well, we can do our best work over an extended period only when we thoroughly enjoy the doing.

Besides, the sales quota establishes a *definite aim.* And where can we find a greater aid to both enjoyment and accomplishment than is brought to us through a clearly defined objective; a definite aim or purpose of operation?

Furthermore, the sales quota provides a suitable means for making a game of business; a game in which every employe, as well as the employer, plays a hand.

Every game that is suitable for grown-ups involves the spirit of friendly contest, and most of the games suitable for children do the same. Generally speaking, too, the greater the contest the better the game.

Isn't it well worth while, therefore, to develop more of the "spirit of friendly contest" and make more of a "game" of business? To do this, an effective use of sales quotas is an obvious necessity.

Finally, the sales quota is necessary because *sales volume* is necessary; because no program of profit producing ever can reach its goal without a sufficient volume of sales to bring a total *income* that exceeds the total *outgo.*

Consistent driving for sales volume always is helpful. Damage is done only when the drive becomes *inconsistent* through neglect of the other essential factors that refine the ore of sales into the metal of profit.

THE HIGH JUMP GIVES A QUOTA LESSON

One of the best and most impressive sales-quota lessons that ever has come to my notice, was given free and unwittingly by a small group of school boys engaged in a vigorous high-jump contest.

Each boy, when his turn came, set a peg in each of two upright posts. Upon these pegs a bamboo pole was placed to serve the purpose of a "jump quota"—a goal—a mark—a *something to be accomplished.*

The practical value of setting the pegs obviously depended upon their being placed so as to draw the individual boy's best effort at high jumping. Just setting the pegs would do no good. They must be set *right; neither too high nor too low.*

If too high, the boy loses through the discouraging influence of frequent failure. If too low, he misses both the important training value and the inspiring joy of sincere effort.

In either case (too high or too low) the jumper is neither developing nor profiting to the reasonable extent of his possibilities; and all because of not having his *goal* properly set.

No matter what the game, much of the willing exertion and wholesome enjoyment undoubtedly result from the practice of thoughtfully establishing definite goals for which to strive, and the friendly contests thereby made possible. Even though the goal be nothing more than to out-do another, the principle holds good.

And right there we have the essence of one of the best possible reasons for establishing sales quotas: To increase *exertion and enjoyment*—to add to our *effort*, and *pleasure*, and *profit*—to inject the exhilaration of boyish play into mannish business; to make a "game" of business.

THERE ARE QUOTAS AND QUOTAS

Yes, there is a difference in quality between quotas, a *vast* difference. There are quotas and quotas, so to speak.

Take the most miserable plug of a horse you ever have seen. Stand him beside the finest prize winner that ever graced a horse show. Both are horses, *but what a difference!*

It is somewhat the same with sales quotas. We cannot recognize the difference as quickly nor as clearly; but the more we think about the practical operation of a complete profit-producing program, the more will we be sure to realize that a vast quality difference may exist in sales quotas, and the better will we be able to "spot" the difference and recognize its influence on profit.

We then see more fully *why*, though a guess will set a quota, it takes a thoughtful combination of information and imagination to produce the real *profit maker*, the real *prize winner*.

Many a man sets a sales quota without thinking very much about it. Indeed, he may not even realize that he has set a quota at all.

Suppose, for example, a merchant should say to himself or to his crew: "Let's try to sell at least $8,000 next month," or whatever the amount or the time period may be. What has he done? Why, he has established a sales quota. He has set a goal of accomplishment, a mark to be reached in a given time.

Here is the big point to remember: *The most scientific sales quota ever established differs from this one only because of the character and extent of the information and imagination applied, through thinking, in arriving at the time period and amount.*

But that difference may be as between the puny plug and the prancing prize winner.

Obviously, the simplest form of a quota is an amount literally guessed at and set as the sales goal for a given period of time. There probably is no man in business who does not practice quota setting at least to that extent. And that, in itself, is a good step in the right direction.

The next step is to carry the procedure beyond the merely mental stage. That simply calls for getting the estimated amount down in black and white, making it a

"matter of record." This, of course, is just for the sake of a more constant reminder and a more helpful comparison. After that—well, we've made a good start.

A RECORD-GUIDED GUESS

Suppose, now, we should ask the aforesaid merchant what *caused* him to place the amount at $8,000, or whatever it may have been. We then would be digging into one of the most important phases of the entire quota question.

Perhaps he just "felt in his bones" that it would be reasonable to expect that volume of business in the time period he was considering.

Perhaps he arrived at the figure without consulting records of any kind, and without giving any particular thought to the external influences that might affect his sales.

Perhaps his guess was guided by recorded information which was inadequate, or upon which too much dependence was placed.

Perhaps he had adequate records, made the best possible use of them and gave proper consideration to all of the internal and external influences that might affect his business during the period. If so, he is fairly sure to have had a good sales quota.

"But," it may be asked, "isn't the sales quota a guess in any case?"

To an extent, it surely is. Every quota is more or less of a guess, if you wish to use that term. Some, you know, prefer to call it an "estimate."

The difference, and it is a *real* difference, is that in the one instance it is "just a guess," while in the other it is a record-guided guess and worthy of being termed an "estimate." In fact, we might well make this distinction: That the *guess* is memory guided, while the *estimate* is record guided.

And that brings us to a sure-fire fundamental principle which applies to all commercial planning, of which the sales quota is but a part:

The stronger the record backing that any estimate has, the more dependable and helpful it becomes.

Judgment is the real essence of all planning, and no judgment can be better than the information from which it springs or upon which it is based. Therefore, the most helpful quota obviously is founded upon the most complete and most dependable information pertaining to possible sales.

WHAT INFORMATION IS NEEDED?

So we may well ask ourselves: What information is needed in arriving at the most consistent and, therefore, the most helpful sales quota? Let us consider this question from the standpoint of the store as a whole.

In the first place, of course, we will look to our record of previous sales, but consider more than the figures themselves. We will size up these figures in view of the *conditions* under which the sales volume for each time period was accomplished. We will consider both the *internal* and *external* influences.

Then, when we turn our thoughts to the possible accomplishments in the period ahead, we view them in the light of similar conditions that may have an influence on our sales. Our quota question is simply this: What volume of sales should and can be accomplished in the period ahead under the influencing conditions reasonably to be expected in that period?

Under internal influences we consider such factors as:

1. The physical condition of the store—its location, equipment, and arrangement—its general attractiveness and efficiency.

2. The merchandise stock. The extent to which it meets and can be made to meet the demands of customers and possible customers.

3. The store organization and personnel—the management, buying, advertising, displaying, selling, and other service forces—their ability and willingness; the extent to which they can and will pull together harmoniously

and apply the spirit of real teamwork toward making the common goal.

4. The availability of funds, and the ability and willingness of the management to apply them when and where needed to accomplish the desired result.

Under external influences, we look to such factors as:

1. The buying market. The extent to which and the ease with which saleable goods are to be obtained at saleable prices.

2. The selling market. The buying mood and purchasing ability of customers and possible customers. The general business conditions in the store's trading territory, so far as these may affect the consumption of the merchandise offered.

3. The strength or weakness of existing and possible competition.

When we come to making the necessary divisions of the store's quota into departments or lines or items, we also consider the factors of direct and indirect profitability.

Direct profit is determined, of course, by considering the possible margin to be produced by the department, or line, or item, together with the cost of doing business applicable thereto; its time cost and effort cost, as discussed in Chap. IX.

Indirect profit depends, obviously, upon the advertising or business-building value of the sale; upon whether or not it pays to handle the goods without regard to the production of a direct profit.

Finally, we come to the setting of a sales quota for each salesman. Then, in addition to such factors as already mentioned, we will consider:

1. Whether and to what extent a portion of the individual's time may be devoted to duties other than selling.

2. Whether and to what extent personal affairs may have an influence on the mental attitude of the individual, thereby affecting the quality and quantity of the selling effort.

WHY QUOTA DIVISIONS ARE NECESSARY

Just as it is necessary to departmentalize the store, so is it necessary to divide and subdivide the sales quota. In fact, the very use of the word *quota* which the dictionary defines as "a proportional part or share; proportion assigned in a division," springs from this necessity.

After all, our big objective can be reached only through the realization of lesser objectives; a step-by-step procedure, as it were.

Truly, the possibilities for profitable divisions and subdivisions of the sales quota for the entire business, are bounded only by the limit of practicability. The location of that limit is necessarily a matter of managerial judgment in each individual case.

It is safe to say, however, that until the limit of practicability is reached, the greater the number of divisions and subdivisions the better the results to be obtained.

Just as the sales for the store as a whole are the total of the sales in each of its various departments, so are the sales in each department the total of the sales on each line or item in that department. And exactly the same principle holds good with reference to the accomplishment of each member of the selling force.

Divisions and subdivisions of the entire store's quota must be considered, then, because they and they alone determine the whole. That is why the best results for the store as a whole are to be obtained when sales quotas are applied to the best advantage to consistent merchandise divisions, as well as to each individual salesman.

The individual salesman needs the inspiration of a definite goal—the come-on-and-do-it *urge*—quite as much as does the entire business or any of its departments.

A MEASURE OF VALUE

Another benefit that results from a consistent quota for each member of the sales force rests with the *gage* provided thereby for more accurately measuring the relative accomplishment and worth of each individual.

The mere comparison of sales totals is altogether too likely to mislead. One salesman may be doing better work than another, though his actual sales are less.

For this reason, it is evident that a definite taskmark set for each individual in accordance with the existing conditions that may influence his sales, will provide a more dependable basis for comparison than ever can be obtained from sales records alone.

Then, by simply expressing the accomplishment of each individual in terms of percentage, we immediately put much more meaning into the comparison. However, the value of the comparison necessarily depends upon the *consistency* of each quota; its degree of "just-rightness."

Of course it is not possible to set sales quotas that are *exactly* right; and we all realize that unusual conditions may arise at any time to influence the sales of the individual. But that is just another way of saying that *judgment* is the soul of profitable quotas.

Quota setting is far from being an exact science; but it is tremendously helpful, nevertheless, when properly applied. The mere fact that many have tried it without getting satisfactory results is no more proof of fault in the principle than target missing by new recruits is proof of fault in the rifle.

THE PERCENTAGE COMPARISON IS ILLUSTRATED

To illustrate the percentage comparison as applied to sales quotas we must start, of course, with the obvious fact that when any individual has reached the mark set for him, he will have sold 100 per cent of his quota. Any other accomplishment is expressed in percentage as based on "goal."

If all of the quotas are set exactly right, each individual will have registered an equal degree of accomplishment when all of the quota percentages are the same. That, however, would be an unexpected situation.

But it shows that varying quota percentages will indicate varying degrees of accomplishment or efficiency; and

that is what tells the important story. It helps to show how much each individual is worth to the business, and how much the bus ness can afford to pay him or her.

For the sake of a simple illustration, let us suppose that salesman A and salesman B are operating under conditions that make the selling of $200 for A and $300 for B a normal accomplishment for a given week, and that their quotas are set accordingly.

Then, of course, when $200 has been sold by A, and $300 by B, each will have sold 100 per cent of his quota. In other words, each will have accomplished 100 per cent of *normal* efficiency.

If, however, A has sold $220 and B has sold $270, the relative standing will be 110 per cent for A and 90 per cent for B. The situation indicates that A has done better work than B, though his sales are less; assuming, of course, that each quota is right and that nothing unusual has occurred to influence the sales of either of the men.

We have here an excellent illustration of one of the dangers that lurk in the use of *average* percentages when applied to specific cases. The situation shows that a wage percentage which may be fair to one individual may be unfair to another.

The mere fact that either a common or an average figure for a given class of stores is a certain per cent of the net sales in those stores, obviously does not prove that the individual whose pay is any other per cent on his or her sales is either underpaid or overpaid. A store or an individual may be operating under conditions that no *average* can reflect.

TIME PERIODS ARE IMPORTANT

Let us now turn our thinking briefly to the time periods for which sales quotas may be established. Perhaps the most common practice is to start with a quota for the year ahead, largely because we are so much in the habit of considering business in terms of yearly periods.

After the quota for the year ahead has been established satisfactorily, the reasonable proportion for each month of the year is determined quite easily when the monthly ratio of accomplishment for previous periods is known.

Then, should there be occasion so to do, the monthly figures can readily be divided into quotas for weeks or even for days. The determining element, obviously, is the practical value to be derived from comparisons for a given time period. This, again, is a matter of individual *judgment.* Each manager necessarily decides the point on the basis of whether or not it will help him in the production of *maximum* profit.

Fortunately, the gradual and successful development of such details tends to take care of itself, once the quota plan has been started properly and is being applied thoughtfully as an essential phase of a complete profit-making program.

This fact is highly indicative: Those managers who seem to have developed their quota setting and business planning to the most profitable extent, show a distinct inclination to project the program in two important directions:

1. Longer time periods, with the plan frequently revised and adjusted for shorter time periods immediately ahead.
2. More minute divisions for specific attention.

Some concerns have definite plans worked out for twenty years ahead, or more. Of course such plans are revised frequently on the basis of changing conditions, but the farther look ahead proves decidedly helpful.

A fairly clear vision of what the business is to be in five or ten years surely will prove helpful to any retailer in formulating his more immediate plans toward the realization of that vision, and in making each period produce its maximum profit.

ADDITIONAL QUOTA CONSIDERATIONS

Just a few additional points may be mentioned as factors to be considered in the development and application of consistent and helpful sales quotas:

1. Quota adjustments or corrections must be made from time to time to meet the inevitable changes in existing conditions.

2. The importance and helpfulness of a definite sales quota for a given class of merchandise increases as the normal rate of stock turn decreases.

3. The quota principle may be applied to the "average sale"—that is, to the average amount of individual sales—in at least three ways:

a. For the store as a whole.

b. For different departments or lines or items.

c. For each member of the sales force.

Be sure to remember, above all else, that what any retailer can do with sales quotas depends primarily upon:

1. Getting started.
2. Striving constantly for improvement.

A simple form, similar to the one shown on page 37, will prove helpful, both in getting a good start and in accomplishing continued improvement.

The simplest start, when properly and persistently followed up, usually leads to the best ultimate result. When too much is undertaken at one time, the chances for satisfactory results in the long run are to that extent endangered. *Take one step successfully, and the next will more nearly take care of itself.* This applies to sales quotas as well as to every other undertaking.

Sales Quotas for Period of________________________**Ending**_______ **19**__

Division	Record of previous period					Estimate for next period				
	Net sales	Percentages			Months in stock	Sales quota	Percentages			Months in stock
		Mark-up	Price re-ductions	Margin			Mark-up	Price re-ductions	Margin	

FORM 2.—This simple form will help to set sales quotas right

A form similar to the above can be made to serve as a valuable aid in establishing consistent sales quotas
All of the information may not be available at the beginning, but will be developed as the plan continues.
The first line is to be used for a main division, such as the store as a whole or a department.
The following lines are to be used for any desired divisions, such as lines, items, salesmen
A separate sheet is used for each time period
A column for Remarks may be included at the right when there is need for special memoranda.

CHAPTER III

A PRACTICAL BASIS FOR POSITIVE CONTROL OF RETAIL STOCKS

Carefully determined stock limits serve as guide lines in establishing and maintaining the right relationship between purchases and sales. This relationship is the short road to merchandising profit. Stock limits help to control buying in order to accelerate profitable selling. They demand consistent assortments of merchandise and keep the stock fresh, clean, and saleable.

Sales quotas and stock limits pull together for maximum sales with minimum stocks. The average inventory serves as the basic stock limit. Consistent reduction in length of time goods remain in stock, decreases carrying cost and increases profit. Stock limits provide a sound basis for positive control of retail stocks, which aims always at the ideal of maximum sales with minimum stocks.

When we have established our basic sales quota—that is, when we have determined how much the store as a whole is expected to sell in the period ahead—we are ready for a careful consideration of stock limits, the second of the four essential elements in the complete profit-producing plan.

The first step, in this connection, is to determine the consistent investment in merchandise with which the aimed-at volume of sales should be reached. That amount will give us our basic stock limit, which leads to the first substantial grip through which more positive control of retail stocks may be obtained.

THE RELATIONSHIP BETWEEN PURCHASES AND SALES

Someone has said that the essence of successful merchandising lies in the relationship between stocks and sales. He might as well have said between purchases and sales, for stock control is primarily a matter of buying control.

One of the biggest of the big jobs of the big boss is to determine what constitutes the right relationship between buying and selling in his own store, and then maintaining it. To do that successfully he needs stock limits and stock control, as well as sales quotas and selling effort. It means finding the best and shortest road to merchandising profit, and keeping to the road.

Carefully determined stock limits serve mighty well as guide lines which help a lot in keeping to the road that leads to merchandising profit; or, differently stated, in maintaining the most profitable relationship between purchases and sales.

"FIFTY-FIFTY" FOR BUYING AND SELLING

One of the most effective tools used by merchants who retail successfully in spite of all the mail order, chain store, and other competition, centers itself in a happy combination of low margins and quick sales; the combination that produces profit through action.

But the successful users of this sharp tool know how to manage. They know that this happy combination can be obtained most surely through the aid of stock control. They know, too, that the master key to positive stock control is found in consistent stock limits.

Said an old veteran in the battle of retailing, "Good merchandising consists in equal parts of good buying and good selling."

No matter how well we may succeed in replacing destructive competition with constructive cooperation, the meaningful saying of this veteran holds absolutely true.

After all, the time-honored adage, "goods well bought are half sold," carries a pack of sound merchandising philosophy; as does also the more recent version, "goods all sold are well bought."

We cannot sell right unless we buy right, nor can we buy right unless we sell right. It is, indeed, a "fifty-fifty" proposition.

But this does not mean that buying and selling require equal portions of thought and effort. It only means that

a proper relationship between stocks and sales must be established and maintained.

THE PARADOX—"LESS STOCK, MORE SALES"

The one final reason for setting stock limits is to help increase our sales and merchandising profit. No doubt about that. We might even omit the mention of sales, but for the fact that there can be no profit without them.

"Sales and profit" may seem to be unnecessary emphasis. But it is helpful to think of sales always and only in terms of the resulting profit. Many a neat business statement furnishes convincing evidence of the surprising ease with which sales can be accomplished without the yield of profit.

To say the least, every such statement is an indication that the eye of the commercial marksman may have left the bull's eye of the business target when the trigger of sales was pulled.

Let's put this down for keeps: Whenever and wherever we discuss sales, our prime interest is not in the sales, but in the resulting profit; the finished product of the business.

So we apply stock limits to control buying for the purpose of boosting sales *at a profit.* We are interested, therefore, in the how and why of stock limitation as a means of sales acceleration, how and why *less merchandise* can result in *more sales.*

We find our answer mostly in two factors of outstanding importance. In the first place, stock limits help to increase sales by demanding merchandise assortments out of which maximum sales can grow.

If, as certainly seems to be the case, more sales are lost unknowingly through unbalanced assortments of merchandise than any other single cause, the possibility of increasing sales through improved assortments is obviously beyond question.

How to maintain consistent assortments will be discussed in our next chapter. For the present, we are more particularly interested in the broader phases of stock limitation

and control. We want to see just how and why suitable stock limits lead to more positive stock control, and to well-balanced assortments of merchandise which stand as the very pith of right buying and the very heart of accelerated selling.

Completely exploded is the old theory that large sales volume results from large merchandise stocks. We know now that profitable sales volume results from consistent stock assortments, neither large assortments nor large quantities.

"THE CUSTOMER IS BOSS"—WHY?

The great fundamental always to be remembered is that the customer invariably controls the situation. Truly, "the customer is boss."

It is the customer who finally decides whether the buy is good or otherwise. What we do, as merchants, is merely to assist the customer in supplying his or her wants. Our managerial job, then, is:

1. To provide the goods our customers and possible customers want or can, with reasonable effort, be made to want; to buy for the customer, not for the store.
2. To buy in quantities that our customers can, with reasonable effort, be induced to purchase within a given and carefully determined period of time.
3. To buy so that we can sell profitably at prices that people are or can, with reasonable effort, be made willing to pay.

In the second place, stock limits help to increase sales by keeping the stock new, fresh, clean; in short, *saleable.*

This factor is self-evident, of course. Why, next to the fatal grouch, who can think of anything more sales repelling than stagnant merchandise?

No wonder the modern manager cries, "*Get rid of it!*" when he sees any item of merchandise sticking around too long. There, indeed,—in *get rid of it!*—we have a sound slogan to apply to all stock that fails to move on a carefully determined time schedule.

It is a sound slogan, because an undue accumulation of stock will retard sales just as surely as suitable stock limits will help to boost sales through the development of consistent assortments.

The presence of even a little dead stock is sure to have a doleful influence on the life and vigor of the best of merchandise. *Get rid of it!;* but only to customers who will be satisfied.

MAXIMUM SALES WITH MINIMUM STOCKS

Let's take a moment, now, to consider how the first two essential elements in our program of profit production—sales quotas and stock limits—affect each other.

We know, of course, that the maintainance of a consistent assortment in any line of merchandise requires a certain minimum volume of sales. It is evident, therefore, that the minimum of sales on which a consistent assortment can be maintained, will determine the minimum sales quota for that line.

We know, likewise, that the maintainance of a consistent assortment in any line of merchandise requires a certain quantity of stock; a certain investment in merchandise.

It is equally evident, then, that the minimum investment in merchandise with which a consistent assortment of stock can be maintained, will determine the low stock limit for that line.

Obviously, the two elements—sales quotas and stock limits—are vitally related. Indeed, maximum profit can be obtained only with the closest possible relationship between stocks and sales. This is the relationship which resolves itself into the nearest practicable approach to maximum sales with minimum stocks.

Of course the stock limit must have a "tolerance," as the machinist would say. Assuming that no conditions are met under which it is possible to replace merchandise immediately when sold, we know that no limit can be placed at an absolutely inflexible point.

Because it is necessary to gage purchases according to the time required to receive the goods, as well as according to the desired rate of stock turns, we ordinarily must carry a stock somewhat in excess of the minimum requirements.

This applies, of course, only to the quantity or investment, not to the assortment. It leads to the establishment of both a high and a low limit for each stock, and thus determines the extent of the necessary tolerance.

A decidedly helpful procedure for the more staple lines, is to determine the amount ordinarily expected to be sold between purchasing and receiving dates. That amount, added to the minimum of investment in merchandise required for any item or line—that is, the low limit—will establish the point for the high or maximum limit.

FROM QUOTA TO PROFIT

Obviously, both sales quotas and stock limits must be high enough to make consistent assortments possible, and profitable.

At the same time, however, the stock limit must be low enough to insure a satisfactory rate of stock turns; to keep the stock moving on scheduled time.

We have, then, this peculiar combination to work out:

1. Sales quota high enough to yield a satisfactory profit.
2. Stock limit high enough to provide a consistent assortment of merchandise, and yet low enough to keep the stock moving fast enough to make the desired profit possible.

That is a combination which calls for a real job in merchandise engineering. To that end the manager seeks to harmonize his sales quotas and stock limits. The process involves determining, first, what can be sold in a given and carefully established period of time; then buying it.

This is being done to some extent, of course, without the aid of record planning. In fact, for items that are bought and sold on the basis of very short time periods, a record may be neither necessary nor desirable.

But whether or not recorded information is the basis of the planning, the route of travel invariably is from quota to profit. It might be outlined as:

1. From sales quota to stock limit.
2. From stock limit to consistent assortment.
3. From consistent assortment to increased sales and profit.

That completes the trip from quota to profit. The oftener we travel the route, the more should we become familiar with its curves, grades, and other peculiarities.

With due consideration for the condition of the business road and the commercial weather, thoughtful effort should give us the delightful experience of beating our own record now and then.

Sales quotas and stock limits, when thoughtfully applied, likewise tend toward a gradual upward adjustment, toward continued improvement.

But in business, just as in motoring, much depends on the condition of the road; its track, curves, grades, detours, other peculiarities, and on the weather.

No Einstein will come along to change the fact that we make less speed and consume more gas on the rough roads and upgrades than on the paved stretches and coaster's delights.

The successful manager, like the good driver, studies the road ahead with thoroughness. He then gages his speed and fuel requirements accordingly. It sometimes costs more, you know, to travel from quota to profit.

LESS CARRYING COST, MORE PROFIT

Avoidable carrying cost reduces the productiveness of the retail store just as surely as leaky valves, loose piston rings, and faulty carburization impair the efficiency of the automobile.

Among the loss producers more or less directly traceable to avoidable carrying cost, we find:

1. All phases of merchandise depreciation resulting from goods remaining in stock beyond their scheduled time.

2. Forced sales resulting from the same cause.
3. Possible sales lost because of inconsistent assortments.
4. Sluggish and non-working capital imprisoned in unnecessary merchandise and thereby withheld from profitable activity.
5. Excessive cost of doing business.
6. Lost discounts.

A formidable list, indeed, and ample proof that the ravages of time on merchandising profit justify the best of managerial attention to the factor of carrying cost.

Just as surely as the germ of depreciation starts working as soon as we take possession of the merchandise, though perhaps unnoticeably, so does the cost of carrying the merchandise in stock commence when the goods are received. It continues with equal sureness until the item is in the possession of a customer.

Therefore, the longer goods remain in stock, the greater will be the carrying cost and the less will be the profit or the greater the loss. Conversely, and from the constructive angle, the less the carrying cost—the less time the goods spend in the store—the more the profit.

This obvious fact clearly emphasizes the importance of more positive control of stock which, through the guiding influence of carefully planned sales quotas and stock limits, helps to reduce the time schedule for merchandise and thus to lower the carrying cost and to increase the profit.

AVERAGE INVENTORY—THE BASIC STOCK LIMIT

The principle involved in fixing stock limits is virtually the same as applied in establishing sales quotas. It calls for a similar combination of information and imagination because the results are equally dependent upon good judgment.

Clearly, when we establish a point at which we expect to hold the average inventory during the period ahead, we have what may well be termed a "basic stock limit."

From that point the tolerance will move to determine the high and low limits.

As indicated in Chap. I, the desired number of stock turns or, more specifically, the length of time the goods are to remain in stock on the average, will give us one of the factors used in determining the basic stock limit.

The other factor is the sales quota at cost or, differently stated, the cost of the goods to be sold. The estimate for this amount is obtained easily by deducting the expected margin from the established sales quota.

Assuming the quota for the year ahead to be set at \$150,000 and the expected margin to be 33⅓ per cent of the sales, we know that the cost of the goods to be sold will be \$100,000, thus:

Sales quota for the year	\$150,000
Expected margin (33⅓ per cent of sales)	50,000
Estimated cost of goods to be sold .	\$100,000

Next, we must know the desired number of stock turns. Suppose we have reason to believe, in this instance, that the stock should turn three times in the year. This simply means, of course, that the goods are to remain in stock four months on the average.

Well, if goods that cost \$100,000 are to be sold in three turns of the stock, we know at once that the stock or average inventory must be one-third of \$100,000. This places our basic stock limit at \$33,333 or, in round numbers, \$33,300.

SUITABLE DIVISIONS FOLLOW

From this simple beginning, suitable divisions and subdivisions can be worked out easily to meet the requirements of any individual case. The number of divisions is limited only by the bounds of practicability, just as in the sales quota.

The above illustration gives, of course, a general-average picture which applies only to the store as a whole. It serves, therefore, merely as a general guide.

We know, for example, that the sales by months, and by weeks, and by days, and by merchandise divisions will vary; that margins and stock turns cannot be the same for all departments or lines or items; and that all of these variations must average our sales, and margin, and stock turns for the entire store if the bull's eye of the profit target is to be hit. For this reason, the general-average picture serves as a decidedly helpful guide.

Of course the practicability of the desired number of stock turns must be determined by ascertaining whether the resulting stock limit will provide an assortment of merchandise with which our quota—the reasonably maximum sales possibility—can be reached.

Quite a number of adjustments may be necessary before the entire plan can be approved. The first figures stand merely as a rough sketch through which the required adjustments become apparent.

Refinements or adjustments are continued toward the ideal—the program for maximum profit production—according to the vision and ability of the individual, just as in the case of any other art.

The simple process above illustrated is applied in the same way whether the basic stock limit or average inventory is established for the store as a whole, or for any desired merchandise division, department, line, or item.

Summarizing the simple steps in the process, we have:

1. Establish the sales quota.
2. Determine the cost of the goods to be sold.
3. Determine the desired number of stock turns.
4. Divide the desired number of stock turns into the cost of the goods to be sold.

The result will show the basic stock limit or average inventory for the division to which the planning applies. Necessarily, the total of all the divisions will closely approximate the general plan for the entire business.

When this is accomplished, we will have a sound basis for positive stock control which aims always at *maximum sales with minimum stocks.*

Plan Stock Control, Period of Months Ending

Merchandise division	Sales quota	Mark-up		Expected				Cost of goods to be sold	Desired stock turns	Average inventory	Stock-limit		Memo
				Price reductions		Margin							
		Amount	Per cent	Amount	Per cent	Amount	Per cent				High	Low	

FORM 3—A simple form similar to the above will prove convenient in developing a basic stock control plan for any store, egardless of the number of merchandise divisions desired.

Those who care to establish stock limits in terms of the retail price, need only divide the desired number of stock turns nto the sales quota

CHAPTER IV

HOW CONSISTENT STOCK ASSORTMENTS ARE DEVELOPED AND MAINTAINED

Consistent assortments of merchandise are the goal of right buying Stock limits are measured in terms of value, stock assortments in terms of units. The latter determine in what kinds, sizes, quantities and price ranges of merchandise the amount established in each stock limit is to be invested

The control of stock, though planned and checked in terms of dollar value, finally depends upon what the units of stock are doing The rate of stock turn for the store as a whole never can be at its best unless the turn of each individual item is at its best Five important points always are in favor of record-guided buying as against memory-guided buying

If setting stock limits were all there is to it, what a snap the merchandiser would have! And by no means does this imply that the setting of suitable stock limits is child's play in any sense of that expression.

We know only too well how insistently stock limits call for the kind of judgment that is born of a harmonious combination of information and imagination; how much they require both *ability* and *vision.*

At best, however, the stock limit is to be considered merely as a rough estimate. It is only a beginning, only a good start in the right direction.

The really *big* job lies in making the definitely limited stock *productive.* It is clearly a case of "cut the coat according to the cloth," but without detriment to the *finished product.* It is clearly a matter of balanced adjustment.

STOCK LIMITS AND TIME LIMITS

One of the highly important phases of adjustment pertains to gaging the stock limit or average inventory according to expected seasonal requirements.

No matter what a suitable average inventory for a seasonal item may be, the ideal calls for the stock being closed out at the end of the season, just as completely as possible without incurring loss of either sales or prestige that would more than offset the cost and loss incident to carrying the left-overs into the next season for that item.

In this connection, the important consideration is that the possible loss which *might* result from taking a chance on passing up a few sales may impress us more readily than the loss which *does* result from carrying over the left-overs.

Everyone seems to realize fully enough that left-overs are to be avoided. Some genius even concocted a catchy sentence that sounds like a good title for an up-to-date song, "We want turnovers, not left-overs." But when we undertake to determine specifically the extent to which left-overs are to be avoided, well, we have a *job* on our hands!

No wonder the profit-making managers figure in terms of open-to-buys and end-of-month stocks, as well as desired stock turns, initial mark-ups, allowable mark-downs, and expected margins.

No wonder time limits are becoming more and more generally recognized as the necessary companion of stock limits.

No wonder we are appreciating the importance of giving more studious consideration to the influence of carrying costs.

No wonder we are thinking more and more about *when* an item will sell, together with our consideration of the *price* it will bring.

STOCK LIMITS AND SEASONAL VARIATION

Another important consideration is so closely related to time limits that it just about takes care of itself when

the time phase of stock limits is adjusted to the best advantage. This might be called the relationship between the basic stock limit or average inventory and the specific or divisional stock limits.

Average inventory necessarily is considered over an extended time period, usually six months or a year; and we ordinarily apply the term to indicate previous accomplishment.

For that reason, we prefer to speak of this element, while planning our profit-producing program, as the "basic stock limit." It might also be called the "expected average inventory."

Now, if our profit-producing program is to work out to the best advantage, it becomes necessary to subdivide both the sales quotas and stock limits sufficiently to indicate clearly any seasonal variation that may require attention in keeping the road to maximum sales with minimum stocks. Monthly divisions usually serve the purpose very well.

When we have a clear vision of the operation of the complete profit-producing program, as it is expected to function month by month, we can see fairly well where the stock limits must be set, *by months;* to guard against having unnecessary merchandise *between seasons;* and to make sure of having necessary merchandise *in season.*

But even the in season may vary extensively, depending upon the policy of the store and the class of customers it serves chiefly. A striking illustration of this point is found in the exclusive shop which advertises "First Showing of Spring Hats" the week before Christmas.

CONSISTENT ASSORTMENTS THE PIVOTAL POINT

After the sales quotas and stock limits have been adjusted properly to accord with the expected seasonal variations, we come to the pivotal point of it all which rests in that great and perpetual problem in merchandising: The consistent assortment, sometimes called the "model stock."

It is the answer to this all-important question: *In what kinds (styles, designs, qualities), sizes, quantities and price ranges of merchandise is the amount established by our stock limit to be invested?*

Clearly, the answer to that question is also the answer to the very heart of the great question of *right buying* which involves both *exclusion* and *inclusion.*

In fact, for the sake of a clear-cut though general vision, we might well say that the consistent stock assortment *in*cludes every item for which a profitable demand exists or can, with reasonable effort, be made to exist; and *ex*cludes everything else. It carries *in* stock what is wanted; and keeps *out* of stock what is not wanted.

The harder we try to define *right* buying specifically, the more we seem to be forced back to the basic proposition that *right buying* consists in *buying:*

1. The *right* item, of the *right* kind, and *right* quality.
2. In the *right* quantity at the *right* time, and *right* price.

No one can get away from the fundamental fact that the difference between the ordinary buyer and the *real* buyer is measured by the degree in which they manage to conform to the dictates of the above trite sayings.

One of the points that seem particularly worthy of constant recognition is contained in the oft-expressed thought that a good way to *sell to* the customer is to *buy for* the customer.

When we know what customers want or can, with reasonable effort, be made to want, we have a master key to the practical solution of the ever recurring problem of maintaining consistent assortments.

CONSISTENT ASSORTMENTS ARE MEASURED IN UNITS

Let us note, now, an essential difference between stock limits and stock assortments: The former is expressed in terms of *value;* the latter in terms of *units.*

No matter how far the subdivision of the basic stock limit may be carried, the dollar measure is the only one

applied. The limit always pertains to the amount to be invested.

Assortments, however, only concern themselves with specific items; with *units* of merchandise. It is simply a question of *what* items are to be carried in stock, *how many* or *how much* of each, and *how long*.

The selection of the items and their quantity must be based, of course, upon effective consumer demand; that is, upon the ability and willingness of people to buy at profitable prices, and in reasonable and carefully established periods of time.

Now, in making selections, we obviously have two general classes of goods to consider:

1. Goods which we have not handled before.
2. Goods which we have handled before.

And it is equally obvious that, for the first of these classes, the necessary selection is far more experimental than for the second.

When goods have been handled before, we have the benefit of specific experience which may be made to serve as a helpful guide in buying. The more definitely we know what has happened in the past, the better can we judge the future.

Happily, all purchases, excepting only the first for any item, are in the second class and can have the benefit of guidance through recorded experience whenever it is needed or will prove helpful.

After all, the selection of the *units* that make up the consistent assortment for any line of merchandise, together with *when*, and in what *quantity*, and at what *price* to buy them, stands clearly as the core of right buying.

Truly, selection is king! In buying merchandise, just as in every other human endeavor, the faculty of selection or choice is the most important one we are called upon to exercise.

The more guidance we can get to help us in our merchandise selections, therefore, the better our chances for success in developing and maintaining consistent assort-

ments; the assortments through which the goal of maximum sales with minimum stocks is to be reached.

STOCK ASSORTMENTS THE "MEANS" OF CONTROL

Bearing always in mind that stock limits serve merely as the *basis* for positive stock control, we readily see why stock assortments stand as the "means" through which the *control* is made possible.

The stock limit can be right only when it provides for an investment on which a consistent assortment can be maintained; and the assortment can be consistent only when it is held within the bounds established by the limits. The two must harmonize.

In this connection, it is well to remember that stock-turn figures usually are based on volume of sales, which is all very well. But the stock turns thus figured are, like the stock limits which also are based on value, somewhat in the rough.

The final test of the effectiveness of stock turns rests with the turn of each unit of stock. When the *units* are ample as to variety and are turning satisfactorily, the entire stock problem is well in hand.

No matter what the business may be, the stock turns for the store as a whole never can be at their best unless the turn of each individual item is at its best.

So the control of stock, though it may be planned and checked in terms of dollar value, finally depends upon what the individual items, the *units*, of stock are doing. That is why the consistent assortment becomes the means or instrument through which more positive control of stock is made possible, and through which sales and profit are increased.

THE BUYING RECORD AS A BUYING GUIDE

Obviously, dependable information as to what each unit of stock has done in the past, serves as a good though by no means infallible indicator of what it may be expected to do in the future.

In their efforts to maintain consistent assortments, many merchants and buyers feel that their close personal contact with the stock keeps them sufficiently informed to judge each purchase properly; to keep sales up to the maximum and stocks down to the minimum.

Some depend on referring to invoices when in doubt as to what and how much was previously purchased, and when. Others apply stock records of one kind or another, aiming always to meet the specific needs of the individual store most effectively.

In a general way, then, buyers may be grouped into two distinct classes:

1. Those who are memory guided.
2. Those who are record guided.

Some, of course, have greater need for recorded information than others. Some require more completely detailed buying records than others.

The larger the store the greater the need for detailed records, because direct personal control is less possible. It is always a question of the practical *use* to be made of the information the records reveal.

Relatively speaking, however, the smaller or average stores are now in greatest need of the development of effective use of informative records. Among this great group, the necessity for such information has been less apparent in the past; yet the possibility for its profitable application is almost without visible limit.

Getting back to stock or buying records specifically, the one big obvious question is: Will they develop more positive stock control and more consistent stock assortments? The answer is: They *do*, when they are started right and handled properly.

As between memory-guided and record-guided buying, at least five important points always are in favor of the latter, because recorded information presents the following distinct advantages:

1. Has greater scope.
2. Is more reliable.

3. Relieves the mind of unnecessary burden.
4. Enables others to use the information when occasion requires.
5. Provides a basis for comparison which aids judgment.

To whatever extent stock records and buying records may be used, the underlying purpose is to serve as a *buying guide;* to assist in maintaining consistent assortments of merchandise, always aiming at the basic ideal of maximum sales with minimum stocks.

PRICE RANGE A FACTOR IN ASSORTMENTS

The range of selling prices for a given class of merchandise is, in some instances, a particularly important factor in determining the consistent assortment.

Consider silk hosiery, for example. Sales records seem to indicate that customers buy hosiery largely on the basis of the price they are willing to pay, thus emphasizing the importance of the price range as a factor in the makeup of the assortment.

For this and all similar classes of merchandise, sales need to be analyzed and studied to learn which prices have the strongest appeal to the store's customer group.

Sales of such merchandise might be analyzed on a basis somewhat as follows, but varied to meet the specific needs of the individual store or line:

1. Lowest price carried.
2. Lowest price for which a full line is carried.
3. Price between 2 and 4.
4. Best selling line.
5. Price between 4 and 6.
6. Highest price for which a full line is carried.
7. Highest price carried.

Another effective method is to list every price offered in a given line, and record every sale made at each price. The information thus revealed—that is, the quantity sold at each price—soon guides to the consistent *price* assortment for that line.

An analysis of this kind often has resulted in substantially reducing the variety in prices, and in increasing both the sales volume and the ratio of profit on sales. Suitable forms for such studies are illustrated on pages 59 and 60.

We readily can see that studies of this kind often serve their purpose when made occasionally, continued over a time period no longer than is required to develop the desired information, and repeated whenever the situation seems to justify.

USEABLE INFORMATION—THE GUIDE TO ASSORTMENTS

Clearly, the maintaining of consistent assortments, like the setting of right sales quotas and suitable stock limits, depends primarily upon useable information plus (always) the character and extent of the imagination or vision with which it is combined.

According to the terse statement of a highly successful merchant, just three things are necessary in maintaining consistent assortments of merchandise, that is, in right buying. He gives these as:

1. Information as to past performance.
2. Information as to market conditions.
3. Vision as to possibilities.

The question of just what information can be put to the most profitable use is, of necessity, largely a matter of individual judgment based upon the needs of the specific case.

From the storekeeper who depends entirely upon what he sees before him and can recall without the use of records, we find innumerable degrees of variation until we reach the merchant who carries his recorded information to the farthest possible point.

In some instances, the record on each item of merchandise will give such detailed information as is indicated by the following list:

1. Complete description of the item.
2. Where obtainable and where bought.
3. Cost and retail prices.

4. Quantity bought, and when.
5. Quantity received, and when.
6. Quantity sold, and when.
7. To whom sold (large sales only).
8. Returns and exchanges.
9. Degree of fluctuation in prices.
10. Degree of fluctuation in consumption.
11. Service and dependability of purchasee.
12. Margin produced.
13. Cost of doing business.
14. Resulting *profit.*

Of course no one can say at long range just what specific information any individual store should undertake to develop through records, because he cannot tell to what extent the information can and will be used advantageously. The fundamental question about record information always is: Can we use it to advantage?

But the more we consider the importance of *information* as a guide to consistent assortments of merchandise, together with the profit-producing possibilities in such assortments, the more clearly we see that the question of informative records deserves thoughtful and continued attention from every merchandiser.

We cannot review too often the great fundamental fact that every phase of merchandising rests finally upon the exercise of judgment, and that judgment is good in proportion as it combines the elements of information and imagination.

The maintenance of consistent assortments of merchandise is, then, a matter of judgment; and the pivotal position of this phase of merchandising indicates why *useable information* and *controlled imagination* play the leading roles.

NOTE: Chaps. V and VI present a detailed discussion of suitable forms to aid in maintaining consistent assortment of merchandise. For this reason, the reader may find it helpful to turn at once to Chap. VII (p. 85), leaving Chaps. V and VI to be read after the general plan of the profit-making program is well in mind, or when it is desired to make a specific study of the "Buying Record and Guide."

Daily Record of Quantity Sales by Prices

Month of........................19.............. **Line**..

Description..

Price	Quantity sold each day																											Total		Net
																												Sold	Returned	Sold

Form 4.—A form similar to the above can be used to analyze sales by prices. The total quantity sold at each price is recorded daily in the column for that day. Returns are recorded in the same space with the sales for that day, either in red ink or encircled. Monthly summaries can be made on another form, such as is shown in Form 5, page 60.

Monthly Summary of Quantity Sales by Prices

Year 19 ------------------------------ **Line** ------------------------------

Description --

Price	Quantity sold each month												Total		Net sold		Remarks
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Sold	Returned	This year	Last year	

FORM 5.—A suitable form for making a monthly summary of the sales by prices recorded on a daily record form, such as is illustrated on page 59 (Form 4).

CHAPTER V

HOW A SIMPLE BUYING RECORD GUIDES TO CONSISTENT ASSORTMENTS

A record guide to consistent stock assortments can be obtained with remarkable ease by using a short-cut plan which develops the required information without recording sales in detail. Only three points are considered in the formula. The proper grouping of items simplifies the process.

Definite information as to the total quantity disposed of since placing the last order proves decidedly helpful, especially when the same information over a number of time periods is at hand for comparison. A simple form guides toward the goal of consistent stock assortments, the essential basis for maximum sales with minimum stocks.

Some merchants believe that a record guide to consistent stock assortments is hopelessly involved with burdensome detail.

However, a careful study of the basic principles and their proper application to the needs of the individual store, usually convinces one that remarkably good results can be obtained with almost surprising ease. The first essential in such a study is to determine what element or elements of information the record should reveal.

We see at once that the basic information required for guidance to consistent stock assortments is the quantity of each item that has been sold in previous periods of time. With that information as a base, we are in position to consider the other elements through which the required deductions are made.

In some instances it is possible to keep a detailed record of all receipts and disposals of every item of stock handled, as in the case of large units. For the majority of retail

stocks, however, it is neither practicable nor necessary to record the individual sales.

We turn our attention immediately, therefore, to a short-cut plan which develops the required information without the necessity of recording sales in detail, but with sufficient dependability for practical use as a buying guide.

A SIMPLE PRINCIPLE IS APPLIED

The principle of this plan has long been used by merchants to determine the cost of the goods sold in the period for which profit or loss was being figured. The method of application is simple and correspondingly easy. Only the following three steps are required in the operation:

1. Begin with: inventory (at cost) at the beginning of the period.

2. Add: the cost value of all goods received into stock during the period.

Equals: the cost value of all goods handled during the period.

3. Subtract: inventory (at cost) at the close of the period.

Result: cost value of all the goods disposed of during the period.

In this time-honored inventory procedure we deal, of course, with values, the dollar measure. When we apply the same method to ascertaining the *quantity* of any item sold, we follow exactly the same three steps of procedure but consider each item of stock on the basis of its own accomplishment.

The formula for the process may be stated, then, as:

1. Begin with: quantity in stock at the beginning of the period.

2. Add: quantity received during the period.

Equals: total quantity handled during the period.

3. Subtract: quantity on hand at the close of the period.

Result: quantity disposed of during the period.

A simple principle, indeed, but one that has real possibilities for practical and profitable application.

THREE POINTS TO CONSIDER

In placing a reorder for any item of merchandise, the three especially important points usually taken into consideration are:

1. Quantity on hand at the time of considering the purchase.
2. Quantity disposed of in the previous time period or periods.
3. Probable sale during the time period for which the purchase is contemplated.

Now, when a suitable record for applying the above simple formula is in use, we will have before us the information involved in both the first and second of these points whenever we may consider purchasing a given item.

A count will show how many of that item are in stock at the time and the record will reveal, through a simple computation, the quantity consumed or sold in the previous period or periods, depending upon how long the record has been in use.

As to the third point: The record will guide us in determining the probable sale to whatever extent past performance may be indicative of future performance.

In other words, we will be in position to base our judgment on recorded experience which, in most instances, is a more dependable guide to consistent assortments than can be obtained without the use of a record.

THE REQUIRED RECORD IS EASILY MAINTAINED

The above formula indicates clearly that there must be some practicable means for keeping tab on:

1. The quantity of each item in stock at the beginning of each period of time covered by a purchase.
2. All of the receipts or incoming shipments of each item placed in stock within that period.

With just these two elements of information before us, all we need do to be able to ascertain the quantity consumed (sold or otherwise disposed of) in a given time period,

is to find out how many of the item are in stock at the close of that period.

The quantity in stock at the time of considering a purchase, is something that every careful buyer is sure to know definitely. If he does not know positively, he will count the stock at the time to make sure.

In spite of the obvious simplicity of knowing all of the influencing facts, there often is a tendency to think of the required effort as being much greater than it really is, and as being out of all proportion with practicability. Buying by guess is the prevailing practice among those who are thus impressed.

But those who take time for a thorough investigation, those who dig deep enough to get a full grasp of both the *how* and the *why* of it all, usually see that the principal effort required is in getting the right kind of a start.

Furthermore, careful consideration usually leads to the conclusion that if an article is worth *handling*, it is worth recording in some way or another, worth keeping track of either directly or indirectly.

Then, when it is seen that a simple process of recording will develop information that really serves as a guide to right buying, making the necessary start begins to loom as a decidedly profitable investment.

With that conclusion reached, we are ready to devote ourselves immediately to finding out how the small amount of necessary recording can be accomplished with the greatest ease.

PROPER GROUPING OF ITEMS SIMPLIFIES THE PROCESS

A variety of methods can be applied in obtaining the required information. In selecting a method, the chief aim is, of course, to apply the underlying principle most advantageously.

To make sure that we clearly recognize the underlying principle and its correct application, let us consider the practical use of a simple form which covers a number of possible situations in which the quantity sold should be

ascertained without the necessity of recording individual sales.

The general design of a suitable form is shown in our illustration (Form 7) on page 71. The form can be used either as a loose leaf or a card record. A separate sheet or card is used for each line of merchandise or suitable grouping of items. A separate line on the form is used for each specific item of stock.

When a line of merchandise includes more items than the sheet or card will accommodate, the record is continued over as many sheets or cards as may be required. The stock can be divided into any desired number of merchandise divisions for suitable groupings on the record form. The plan is, therefore, sufficiently flexible to meet a variety of requirements.

A separate sheet or card might be used for each specific item of stock, but that would add greatly to the required number of sheets or cards and would cause the loss of a distinct advantage in comparison which accrues from careful grouping.

THE PROCESS OF GROUPING IS ILLUSTRATED

The process of merchandise grouping to facilitate the use of the form we are discussing, may be illustrated clearly with any article that is made and handled in different kinds and sizes. Men's collars will serve as well as any other item for a specific illustration.

Let us assume that we are handling a brand of collars made in five distinct lines which we will designate as:

1. Regular.
2. Youths'.
3. Clerical.
4. Soft.
5. Semi-soft.

Suppose, now, that the regular line is made in twenty different styles, and that each of these styles is made in about twenty different sizes. That would make a total

of approximately four hundred items in regular collars alone.

Even if we should desire to handle and control this entire line, the buying record we are considering would require only twenty record sheets because all sizes of one style would be recorded as a group on one sheet. As each style is designated by a name, the twenty sheets would be arranged alphabetically to facilitate quick reference.

In the youths' line, however, we might have only two styles, each carried in but a few sizes. In that case, the total number of items in these two styles might be cared for easily in two groups on one sheet of the record. A similar situation probably would be found in the clerical line.

When we come to the soft and semi-soft collars, a different situation may confront us. Each style or model may be made in several grades or of different materials, thus increasing the number of items.

Should each of these items be carried in a full list of sizes, a separate sheet would be used for each. The distinguishing feature would be noted in the space provided for description at the top of the page.

This process of grouping can be applied in any kind of store and can be continued to any desired point, regardless of what the conditions may be. Such classification or grouping always is possible and usually is practicable, that is, helpful.

While most classes of merchandise can be grouped easily for this type of buying record, it does not follow that this is the type to be applied to all classes of merchandise. Our present interest is centered on getting the clearest possible recognition of the principle involved. Where and when to apply it is a matter for subsequent consideration.

The process of merchandise grouping for this convenient type of buying record and guide may be compared with the making of a satisfactory index for a catalogue covering the same merchandise. The one important difference is

that the list for the buying record will be divided into such sections as will permit the easy handling of each section or group on one sheet or card.

HOW THE FORM IS USED

The form shown in our illustration (Form 7) is designed for convenient use in applying the principle above discussed, that is, in ascertaining the quantity of any item sold in a given time, without the necessity of recording the sales in detail. The record is written up usually at the time an order for any line of goods is being placed.

A set of three columns is provided for each purchase. A number of these sets of columns is placed on each page for the sake of a continued record that will facilitate making the comparisons which determine the practicability and value of the record.

The date of the purchase is recorded at the top of the set of columns. The set is used for only one purchase, whether it be for one or more of the items listed on the page. The three columns in each set are headed respectively: In Stock, Ordered, and Received.

Now, as previously mentioned, when the placing of an order for any line of merchandise is being considered, it obviously is necessary to know how many, if any, of each item (size or kind) in that line are in stock. Unless already known, this information is obtained, of course, by the simple process of counting the stock; and this is or should be done whether or not a buying record is being used.

Should it be found that no purchase is to be made at that time, there will be no need for recording this information because another count will be made the next time the placing of that order is considered. But when an order is placed, the quantity in stock at that time becomes important information which needs to be recorded for future use. It is, also, one of the factors which determine the quantity then to be ordered.

Another factor is the rate of consumption, that is, how many have been sold or otherwise disposed of in a given

length of time. In this important factor, the record plays a particularly effective part.

Unless specific information as to the rate of consumption is in some way available, the buyer necessarily reaches his conclusion on the basis of memory. The several advantages of record-guided over memory-guided buying were mentioned in the preceding chapter.

When an order is placed, the quantity of each item ordered will be recorded in the Ordered column on the line of the record devoted to that item. This portion of the record serves merely as a memorandum of the fact that an order was placed, together with when it was placed, and the quantity of each item ordered.

THE RECORD OF GOODS RECEIVED

The column headed Received is used for recording the quantities received and placed in stock, thus becoming a portion of the total quantity of that item handled.

All of the items recorded in the Ordered column usually are received and placed in stock at one time. The date placed at the top of the Received column applies to all of the entries in that column not otherwise dated.

A simple check mark might be placed in this column to indicate that the quantity recorded in the Ordered column on the same line has been received and placed in stock.

Some advantage accrues, however, from repeating the quantity in the Received column. It gives the information more specifically and facilitates its use in deciding upon the quantity to buy when next ordering.

When a partial shipment is received, both the date and the quantity should be recorded on the line devoted to the item, leaving space for recording the additional shipment or shipments. Partial shipments, though they may not occur frequently, are to be recorded separately for the completion of the record.

Now, when all the goods on any order have been received and recorded, the buying record will reveal the following information regarding each item on that order:

1. Quantity in stock at the time of ordering.
2. Date of order.
3. Quantity ordered.
4. Date received.
5. Quantity received.
6. Number of shipments made on the order.

HOW THE INFORMATION IS USED

We are now ready to consider how the recorded information is applied in developing the guide to right buying.

Whenever we ascertain how many of any item are in stock, we are equipped to compute the quantity of that item consumed (sold or otherwise disposed of) since placing the last previous order for that item.

Suppose, for example, that three of a given item were in stock at the time of placing the last order, that twenty-four were then ordered and have since been placed in stock, and that the present count shows six remaining in stock.

We then apply the simple formula which already has been mentioned. The computation is so easy that it usually can be made mentally. The situation above outlined would work out as follows:

In stock at time of placing previous order	3
Subsequently placed in stock	24
Total quantity handled	27
Present count (in stock now)	6
Quantity consumed (disposed of)	21

This definite information as to the total quantity disposed of since placing the last order proves decidedly helpful, especially when the same information for a number of time periods is at hand for comparison.

If an order is placed, the quantity consumed will be recorded in the consumed space on the line for that item, but in the preceding set of columns. The consumption figures should stand out prominently for the sake of convenience in future comparisons. They might be entered in red, for example, or encircled.

With the quantity consumed between each two purchasing dates thus clearly shown, a glance over the record of a number of purchases suffices to demonstrate quickly how recorded experience serves as a practicable base for the exercise of good judgment in buying.

AN ILLUSTRATION WITH FIGURES

Carefully looking over a specific illustration with figures, will help to fix in mind the simple principle of the "buying record and guide." Any line of merchandise would serve the purpose of this illustration. To make the case specific, we must select some one line. Let it be varnish brushes.

Those who do not handle varnish brushes may find it helpful to work out a similar illustration with one of their own lines. The simplicity of the plan, its ease of operation, and practical value will thereby be made more impressive. We show a portion of the record covering three orders and two buying periods, sufficient to bring out every essential point. The illustration follows.

Size or kind	Date Jan 4		Rec'd Date	Consumed	Date Feb 26		Rec'd Date	Consumed	Date Mar 18		Rec'd Date	Consumed	Date		Rec'd Date	Consumed
	In stock	Ordered	1/2		In stock	Ordered	2/10		In stock	Ordered			In stock	Ordered		
Flat 1"	2	24	24	22	4	24	8/2/20 / 16	22	6	36						
" 2"	✓	12	12	4	8	✓	✓	8	✓	12						
" 2½"	14	✓	✓	8	6	12	12	14	4	24						
3"	4	✓	✓	4	✓	6	6	5	1	12						
Oval No 1	✓	12	12	2	10	✓	✓	2	8	✓						
" " 2	8	✓	✓	✓	8	✓	✓	✓	8	✓						

FORM 6—When a record like this is used properly, a single order might be placed for an item that our customers and possible customers cannot, with reasonable effort, be made to want, but the same mistake will not be made a second time.

We might buy once in a larger quantity than the desired rate of stock turns will justify; but that sad mistake never will be duplicated.

The proper use of such a record guides, therefore, toward the goal of consistent stock assortments, the essential basis for maximum sales with minimum stocks.

NOTE. The complete illustration, without figures, for this chapter is shown in Form 7, page 71.

Buying Record and Guide

Sheet number________ **Buying period**__________________ **Line**__________________________

Description____ **Year 19**______

Size or kind	Date		Rec'd	Consumed	Date		Rec'd	Consumed	Date		Rec'd	Consumed	Date		Rec'd	Consumed
	In stock	Ordered	Date		In stock	Ordered	Date		In stock	Ordered	Date		In stock	Ordered	Date	

FORM 7.—Suggested form.

A form similar to the above will be found suitable for ascertaining the quantity of each item sold during given time periods, without the necessity of recording individual sales.

CHAPTER VI

OTHER SIMPLE FORMS THAT GUIDE TO CONSISTENT ASSORTMENTS

A careful study of several forms will help to establish the principle of the "buying record and guide" clearly in mind, and reveal the simplicity of its operation The buying guide may be applied to selected lines. Each case must be decided on the basis of its own merit The fact that prevention is better than cure, applies as well to the health of the store as to personal physical fitness.

Comparison is the all-important element in the use of any buying record. The forms shown are merely to illustrate the principle Suitable variation can be made to meet any specific requirement All forecasting is based directly upon information revealed through recorded experience. The direct purpose of the "buying record and guide" is to develop dependable information regarding the rate of consumption on specific items of merchandise.

The application of a simple buying record and guide was outlined and illustrated in the preceding chapter. The proper application of the principle involved may be brought out more clearly through a careful study of several additional forms which develop the same information in a somewhat different way.

No matter what kind of a form is used for a buying record and guide, the object always is to develop the information that can be recorded and which will serve as a practicable guide to right buying for any regularly handled line; a guide to the development and maintenance of consistent stock assortments.

As indicated in the preceding chapter, the essential information which can be recorded easily is twofold:

1. The quantity of each item in stock at the time of placing an order.

2. The quantity of each item received into stock since placing the last previous order.

The quantity ordered is recorded merely as a memorandum, and dates are recorded chiefly to measure the time between orders.

This fundamental information applies to the forms considered in the present chapter, just as they do to the form presented in the preceding chapter.

THE OLD FAMILIAR BUGABOO

Before taking up the application of the forms, let us devote a bit more thinking to the old familiar bugaboo that an excessive amount of effort may be required.

As we all know so well, both work and pleasure often appear greater in anticipation than they prove to be in realization. It is somewhat like the upgrades we encounter in our drives. The farther ahead the grade, the steeper it seems. But when we actually begin the climb, we experience the delightful sensation of seeing the road apparently flatten under the weight of the car.

Furthermore, the grades we are making for the first time usually impress us as being more formidable than those in our accustomed routes. In a similar way, the things we are not in the habit of doing tend to cause us to place an undue emphasis on the amount of effort required.

But that is as it should be. It serves as a guard against taking on useless tasks. It influences us toward making a more thorough study of a proposed plan. Only to those who do not make a careful analysis, will this tendency act as a hindrance to progress.

The progressive buyer who is not in the habit of using a record guide, will weigh the possible advantages against the required effort. When he first contemplates the process, he probably will center his attention chiefly on what seems to be additional work. Then, when he measures the value of the obtainable results, he may see that it leads ultimately to less effort and more profitable accom-

plishment. The proof of actual test will bear out his conclusion, providing only that the record is right and that it is handled properly.

A buying record and guide, such as we are discussing, will demonstrate clearly that it can be kept up with remarkable ease. Once properly started, it requires but a few simple jottings of figure information which every careful buyer has at hand when placing an order for a regularly handled line.

The fundamental difference between buying with or without the aid of a record guide lies, therefore, in simply recording the information already at hand to make it available for future use as a base from which consistent assortments can be maintained more easily.

THE BUYING GUIDE MAY BE APPLIED TO SELECTED LINES

A feature which is closely related to the element of required effort, is found in the possibility of applying the record guide to selected lines only. We thereby eliminate such lines as yield no practical assistance through the influence of recorded experience.

For example, specialities which are stocked because they happen to be available on an advantageous basis and are not to be handled regularly, obviously present no occasions for comparison as do goods that are handled continuously.

In cases of that kind, the buying record would serve merely as a history of the transaction. It might be worth while from that standpoint, but not as a buying guide in the meaning we are giving to that expression. An extreme case is found in produce as handled by the grocer who goes to market daily or who buys from the irregular and more or less limited supply that is presented at his door.

He realizes that the effective demand for these goods is influenced chiefly by their appearance and freshness. Practically, he buys this line on the basis of a specific specialty. He therefore would find no particular value in a record of previous purchases to help indicate the rapidity of sales as a guide to right buying.

But even in cases of this kind the merchant may gain sufficient benefit to justify the simple recording of purchases, especially when spoilages also are recorded.

Such a record would indicate the trend of the sales, which might serve as an inspiration to special effort. Then, when he applies the simple method for ascertaining the actual profit in the line, as discussed in Chap. IX, he will be in position more accurately to determine the extent to which effort can be applied advantageously.

So we get back to the fact that each case must be decided on the basis of its own merits; back to the process of selection. The big point always to remember is: *When the underlying principle is understood thoroughly, common sense will take care of the details.*

THE "OUNCE OF PREVENTION"

Another phase of the situation deserves a moment's attention. Some incline to the belief that a buying record and guide (which is based on *units*) is needed only when the dollar figures indicate that a given department is not performing satisfactorily. They think the recording of items is practicable only as a trouble chaser.

Such use of the record is open to the criticism that it serves as a cure for a known disturbance, rather than as a preventive of possible trouble.

More careful consideration probably would lead the user of the apply-only-when-it-hurts plan to realize that, "An ounce of prevention is worth a pound of cure," applies as well to the economic health of the store as to our personal physical fitness.

The mere fact that a trouble exists proves conclusively that a damage has been done. After all, the only way to prevent damage is to avoid its cause. And we need to remember always that some of our greatest commercial dangers lie in undiscovered errors and invisible losses. We need to apply the principle of the clinic, not the post-mortem.

Besides, the hit-it-occasionally practice deprives the store almost completely of the important comparative feature of recorded experience, and its only purpose is to avoid effort. But this takes us back to the consideration of effort as already discussed. Really, when the habit of jotting down the information is once established, the required effort is just about nil. Clearly, then, when the buying record and guide is used for any item or line, it pays to use it continuously.

HOW "FORM 12" IS USED

The form presented in the preceding chapter was suggested as one of a variety of forms suitable for use as a buying record and guide applying to regularly handled lines of merchandise for which it is not practicable to record individual sales.

We saw then that, though the form may be varied almost without limit, the underlying principle remains always the same. The forms shown in this chapter apply exactly the same principle, but in a different way. In fact, the order of procedure is just reversed.

In the preceding form, a set of columns was used for each purchase, and a line for each item. In the present forms, a line is used for each purchase and a column or set of columns for each item, that is, each size or kind of the article or line to which the page is devoted.

While fewer items can be handled on a single page of either of the present forms, we gain the advantage of having the continuous record for each item more condensed, and in a columnar arrangement which facilitates comparison.

Comparison is, of course, the all-important element in the use of any buying record; comparison of quantities consumed in the different time periods between purchasing dates. Therein lies the effective guide to right buying.

To facilitate the process of making comparisons, Form 12 (page 83), just as the form shown in the preceding chapter, is provided with a special column for recording the quantity consumed between each two purchasing dates. The time

elapsed between these two purchasing dates is determined easily by noting the entries in the date column.

Should the user desire to have the time period stand out more clearly, it can be recorded in the same space with the quantity consumed.

With this time period definitely in mind, a glance at the Consumed Previous Period quantity will show the rate of consumption which, together with the length of time the present purchase is desired to last, will help to indicate the logical quantity to buy.

It will be noticed that the In Stock and Received entries are to be made in the same column, one above the other. This is done to facilitate the adding of these two quantities (In Stock and Received) which will give the total quantity handled.

Then, the present quantity in stock which is entered in the next space below, can be subtracted easily to ascertain the quantity consumed since the last previous order was placed.

The form is designed, of course, merely to illustrate the general arrangement. Suitable variations can be made readily to meet any specific requirement.

HOW "FORM 13" IS USED

Form 13 (page 84) shows another general arrangement which permits placing a greater number of items on a line of the page. To accomplish this, we must use a separate line for each element of required information, as indicated by the form.

For the purpose of showing clearly how this particular form is used, and also to review the underlying principle that applies to every buying record and guide based on unit control, let us follow through a concrete illustration.

Assume we carry the *X Y Z* line in four sizes designated respectively as Nos. 100, 200, 300, and 400, and that each size is carried in two colors, black and tan, designated as Nos. 1 and 2. We have, then, eight specific items in the line.

The color number is added to the size number to make the stock number. Thus the 100 size in black is known as No. 101, and in tan as No. 102; and so on for the other sizes.

The first time we place an order for this line after the record is started, the quantity of each item then in stock will be recorded on the In Stock line in the column headed with the stock number of that item. If the order happens to be placed January 2, this entry might appear as follows:

Date or period	Description of entry	Sizes or kinds							
		101	102	201	202	301	302	401	402
	Consumed								
1/2	Ordered								
	In stock	12		8	12	3	16	6	10
	Received								

FORM 8.

Assume, next, that we order 12 each of Nos. 102 and 301, and 6 of No. 401. These quantities will be recorded, of course, on the Ordered line in the proper item columns.

Later, if the goods are received as ordered, say on Jan. 7, the same quantities will be entered on the Received line. The above portion of the form will then appear as follows:

Date or period	Description of entry	Sizes or kinds							
		101	102	201	202	301	302	401	402
	Consumed								
1/2	Ordered		12			12		6	
	In stock	12		8	12	3	16	6	10
1/7	Received		12			12		6	

FORM 9.

Now, suppose we consider placing the next order for this line on Feb. 2. If the quantities in stock justify ordering, we will record the count on the next In Stock line. This entry might appear as follows:

2/2	In stock	10	12		1		5	11	10

FORM 10.

With this information before us, the consumption will be determined by simply subtracting the present In Stock

quantities from the total of the In Stock and Received quantities immediately above.

The differences will be entered on the preceding Consumed line for convenient comparison with the present In Stock quantities. The record on the page will then appear as follows:

Date or period	Description of entry	Sizes or kinds							
		101	102	201	202	301	302	401	402
	Consumed								
1/2	Ordered					12		6	
	In stock	12		8	12	3	16	6	10
1/7	Received		12			12		6	
1 Mo	Consumed	2		8	11	13	11	1	
2/2	Ordered								
	In stock	10	12		1	2	5	11	10

FORM 11.

The record now shows us how many of each item were disposed of in January and how many remain in stock. Of No. 101, 2 were sold and 10 remain in stock. Of No. 102, none was sold. But more time may be required to determine whether that means inconsistent assortment.

No. 201, however, already gives evidence of something wrong, as eight were consumed and none are in stock. Nos. 202 and 301 also indicate that an order should have been placed before. A mere glance at the figures suffices to tell us that both the 100 and 400 sizes need watching because of their tendency to *hang* on; while the 200 and 300 sizes deserve attention because of their power to *move* on.

Clearly, we have in stock too many of the former and too few of the latter; a condition of inconsistent assortment which the intelligent use of the record will tend to correct in the course of a very few buying periods. As the record continues and more buying periods are covered, greater comparison will make the figures reveal more positive and more helpful information.

HOW THE INFORMATION IS USED IN JUDGING FUTURE NEEDS

The rapidly developing art of forecasting business conditions is based directly upon information revealed through recorded experience, as is also the art of weather predicting, and the art of judging future requirements in merchandise. In no case can the experience of the past be taken as an infallible and all-sufficient indicator of what is ahead, but in every instance it serves as a necessary foundation for the reaching of sound conclusions.

At the weather bureau you will find recorded experiences accumulated with remarkable completeness and thoroughness. Yet those of us who are not properly trained in the effective use of this information, can do a better job of weather predicting by depending entirely upon our corns and rheumatic tendencies.

Ask the weather man how he reaches his conclusions. He will tell you that a variety of twos and twos are put together, but that it depends finally upon the exercise of judgment. And in the weather bureau, as in the store and everywhere, judgment is neither more nor less than a combination of information and imagination.

Some one has stated aptly that the man who makes practical use of statistics (recorded experiences classified) is an "educated guesser." He probably intended to convey the idea that guessing never is eliminated entirely. It can be eliminated with reference to what has transpired in the past, but not with reference to what may happen in the future.

So we always get back to the basic proposition that information is valuable only to the degree in which we use it as a guide to better judgment. With this thought in mind, let us look again at our barely started record of the *X Y Z* line, and imagine it as being extended over a number of buying periods.

We readily see that, as the record is continued period after period, the story it tells becomes more and more informative. It will help us to judge not only how many, if any, of each item should be ordered, but also how often

we should order to obtain the greatest practicable rate of stock turns.

Suppose, for example, our continued record for this line indicates that one week ordinarily is required to receive the goods after an order is placed, and that a reasonable shipping quantity will last about four weeks. We then know that this line should be ordered one week in advance of our needs and on the basis of four-week buying periods, unless unusual circumstances arise.

If this happens to be a line that is subject to practically constant demand (without seasonal or other varying influences), we will aim to develop a stock-turn rate of twelve times a year. Again, should we unfortunately be accumulating dead or dying stock, the record will tell us that in unmistakable language.

Suppose the extended record reveals a continuation of the present situation; that the 200 and 300 sizes have kept up their activity, and the 100 and 400 sizes their inactivity. The record then tells us that special effort is required to reduce our stock of the latter sizes and, perhaps, that they should be closed out and discontinued. In that way, we are guided to thaw out the frozen investments and place the redeemable dollars where they have a chance to do something for us, in stock that can be made to produce a profit.

MISCELLANEOUS COMMENTS

As every "buying record and guide" deals with units of merchandise, the price element has received no mention in our discussion of suitable forms and their practical application. Obviously, however, those who desire to include the purchase price in this record, can provide a space for that purpose in the arrangement of the form.

In fact, the price can be entered as a memorandum in the same space with the quantity ordered, thus avoiding the need for a specially provided space. But most users probably will prefer to use the buying record and guide exclusively as a help in determining *what*, *when* and *how much* to

buy. They will keep their price information separately, on some form of a "quotation record" which provides a better guide to advantageous prices.

It may be helpful, in some instances, to indicate on the buying record and guide the firm from which the goods are bought. If so, a small additional space usually will suffice because nothing more than an abbreviation of the firm name will be needed ordinarily.

Should it be desired to indicate the name of the purchasee with an even greater economy of space, a suitable number or letter code can be worked out easily for the comparatively few concerns from which purchases will be made.

But we must be sure to remember that the direct purpose of the buying record and guide is to develop dependable information regarding the rate of consumption on specific items of merchandise. As in the case of the purchase price, information as to where the goods have been or may be bought, usually is recorded more advantageously on a separate form. In fact, these elements of information are included in an adequate quotation record.

Another point to remember is that additional records are needed to round out a complete stock control which finally involves the control of the entire business. The mark-up record, for example (see Chap. XII) is needed to tell the story of each division or department of the business in terms of value. In this connection, we will remember that an indefinite number of buying records may be used for each division that is under the control of a single mark-up record.

Finally, we must remember that the story is never complete until we have the measure of actual sales against the mark established in our sales quota; the average inventory (by actual count) against the stock limit we have fixed; the total of all expenses incurred against the schedule of the expense budget; and the profit realized against our definite aim for the entire process of profit production.

Buying Record and Guide

ıeet ımber............ Buying period........................ Line ....

ɛscription.. Year 19......

Date 19...	Size or kind			Size or kind			Size or kind			Size or kind			Size or kind		
	Consumed previous period	In stock / Received	Ordered	Consumed previous period	In stock / Received	Ordered	Consumed previous period	In stock / Received	Ordered	Consumed previous period	In stock / Received	Ordered	Consumed previous period	In stock / Received	Ordered

Form 12—This illustration shows a form of Buying Record and Guide in which a line is used for each purchase and a set of columns for each size or kind in the line of merchandise to which the page is devoted

Buying Record and Guide

Sheet number........ **Buying period**........................ **Line**..............................

Description.. **Year 19**....

Date	Description of entry	Sizes or kinds											
	Consumed												
	Ordered												
	In stock												
	Received												
	Consumed												
	Ordered												
	In stock												
	Received												

Form 13.—This illustration shows another variation of the Buying Record and Guide, which permits placing a greater number of items on a single line of a given page.

A form thus arranged is particularly suitable for lines of merchandise that are carried in a great number of sizes.

CHAPTER VII

A STUDY OF THE SELLING PRICE

When considered in terms of the long run, "all the traffic will bear" is a sound basis for establishing the right selling price. The traffic will bear all that it can only when it is satisfied. The difference between mark-up and margin is the difference between what we try to get and what we succeed in getting.

A graphic analysis of the selling price centers attention on the important difference between mark-up and margin. It also helps in understanding why mark-up tells the profit story, why margin is the only source of profit, why the customer determines the margin, and what the wholesome selling price contains.

We come, now, to one of the highly important elements in everyday merchandising which everyone understands, in a way; but which few *study* or *think about* as much as really is necessary for maximum profit production.

We all know well enough that the man who makes his effort count for most, is the one who does the best *thinking* about the apparently obvious things in his work. Nevertheless, we readily accept the apparently obvious things as a matter of course and sometimes do but little real thinking about them.

On first thought, most of us probably would say that chopping an ordinary log calls for a lot of elbow grease and very little exercise of gray matter. Yet Peter McLaren, champion wood chopper, demonstrates that it really is the *brain work* that does the business, even in wood chopping. As McLaren puts it: "Every log is a problem in itself. I think out every stroke and strike where the blade will do the most good."

The long continued mixing of gray matter with elbow grease enables this champion to cut his way through a 16-inch log in less than two minutes, and that mixture

is exactly what we find in every champion, no matter what his field may be.

WHAT IS THE RIGHT SELLING PRICE?

We can take up our study of the selling price, then, with the assurance that it pays to do some *real thinking*, even about its apparently obvious phases; and we may well turn our thoughts, first, to this leading question: What is the *right* selling price?

Probably every merchant has his own answer to this question, an answer that he can give right off the bat. At any rate, it will prove helpful to stop reading long enough to write down your own definite answer for future consideration.

What is the *right* selling price?

"All the traffic will bear," comes often as the blue-ribbon answer. When we consider it in terms of the long run, that answer seems just about to hit the mark; for the traffic will bear all it *can*, only as long as it is *satisfied*.

Though it is necessary always to remember this tremendously important phase of the question—that is, *customer satisfaction*—we must consider it from a somewhat different angle. This is because we are now dealing with the more specific or more direct profit-producing quality of the selling price, which brings us to the proposition that the selling price is *right* when the *margin* is right.

The selling price is vital, certainly; but the vital or profit-producing part of the selling price is the *margin*. So our thinking immediately centers itself upon the third factor in our fundamental quartette of essentials in profit producing: Sales, stocks, margins, and expenses.

THE DIFFERENCE BETWEEN WHAT WE TRY TO GET AND WHAT WE SUCCEED IN GETTING

When we consider margin to the best advantage, we must begin with the subject of mark-up. This is because, though mark-up and margin frequently are equal, they sometimes are vastly different.

The possible difference between mark-up and margin is the possible difference between what we *try to get* and what we actually *succeed in getting.*

Margin is the mark-up minus the price reductions; what is left of the mark-up when the goods have been sold. Were every item, therefore, disposed of at the originally marked retail price, mark-up and margin always would be equal.

Not only does the existence of the possible difference need to be recognized clearly, as of course it is, but its possible *causes* need also to be recognized, understood, and constantly kept in mind.

The far-reaching significance of this apparently insignificant point (as it may be to some) impresses itself upon us forcibly when we stop to consider what the result would be if all goods were retailed within the expected time and at the expected price. It is true, of course, that price reductions (both expected and unexpected) are much more of a factor in some stores and in some lines than in others; but no store and few lines are entirely immune.

Price reductions—that is, the difference between what we start out to get and what we finally succeed in getting—occur unexpectedly to some extent, even in the best-regulated stores. Their existence and their influence on *profit* need therefore to be recognized clearly and taken into account as definitely as possible to assure the maximum *net.* That is why it is highly important to know and to keep always in mind the possible difference between mark-up and margin.

SAYING WHAT WE MEAN IS HELPFUL

Any consideration of mark-up and margin brings us face to face with the well-known fact that our use of commercial terms is less standardized than it needs to be. In some instances, at least, we do not all mean exactly the same thing when we use exactly the same term; and at times we do not really mean what the term we use really means. Listen carefully at almost any open dis-

cussion of merchandising problems at almost any convention of retailers. The truth of the above statement is practically sure to manifest itself quickly and impressively.

One particularly misleading term is "gross profit." It is being eliminated to some extent, but continues to be used occasionally as a synonym of both mark-up and margin. This is an unfortunate practice which has a really detrimental influence on the legitimate rewards of business. Besides, the term is an out and out misnomer. There is no sense in it. It needs, therefore, to be condemned to something that will put it completely and forever out of existence.

Furthermore, what does gross profit mean to the average individual? What *can* it mean? What does "gross" mean to him or to her? There probably is no need for looking up the dictionary definition to reach the conclusion that if "big, fat, shameful" profit is the idea we wish to convey, "gross profit" fills the bill very well.

We all understand clearly enough just what the word "profit" means; yet how often we hear the term misused! We know well enough that profit is just profit and never can be anything but profit; that it always is the *net.* So we readily see why "gross profit" really is an out and out misnomer.

Let us say profit only when we mean *profit.* Let us say mark-up when we mean the difference between the cost price and the *marked* price; the price we are *trying to get.* Let us say margin only when we mean the difference between the cost price and the *selling* price; the price we actually *got.*

This logical practice will help more than one readily realizes, on first thought, in knowing the right mark-up and getting the right margin. Meaning, of course, the margin that produces the aimed-at profit.

While there are several possible phases of mark-up—original mark-up, revised mark-up, present mark-up, and maintained mark-up—we will use the term as pertaining to the original mark-up only. Recorded price reductions

or mark-downs will show the variations from the original mark-up, of course; and it often proves decidedly helpful to observe such variations studiously.

THE SELLING PRICE IS ANALYZED

Now, as we all appreciate the importance of keeping every component part clearly in mind when we wish to study anything thoroughly, we will agree quite readily that it is well worth while to make a deliberate though simple analysis of the selling price.

An analysis is nothing more than "an examination of component parts separately, or in relation to the whole," as Webster tells it; and we want to do both, so far as the selling price is concerned.

When we analyze anything, then, we simply try to learn whereof it is made. We thereby develop a clearer conception of each part separately, and how the parts are related one to another and each to the whole. We get therefrom a better and more helpful understanding of the whole works.

With this thought and possibility in mind, let us examine the component parts of the selling price. Let us do this with a view to seeing how and why it will guide us to a clearer vision of the right mark-up. Which means, of course, a clearer vision of both the right selling price and the right margin.

Let us be sure to remember that this simple analysis will apply equally well to the price of a single article, any group of articles, or an entire stock of merchandise. The principle remains exactly the same whether applied to one, to a few, to many, or to all.

As the logical first step in any analysis is to separate the thing to be analyzed into the fewest possible number of parts, let us ask ourselves: Into what two parts can a selling price be divided?

But, as we remember the difference between mark-up and margin, we realize that we must know whether the question pertains to the *marked* price (the asked price,

what we are trying to get) or to the *selling* price proper (the received price, what we actually got).

Let us start with the former, as we always must do in actual practice. We then can follow with the various divisions indicated in the accompanying diagram, and thus consider the variety of possible combinations of component parts that may be found in the selling price.

THE MARKED PRICE IS WHAT WE TRY TO GET

In view of starting with the marked price our question becomes, first: Into what two parts can the marked price be divided? The answer is stated in the form of an equation:[1]

1. Marked price equals merchandise cost plus mark-up.

($1 equals 60 cents plus 40 cents)

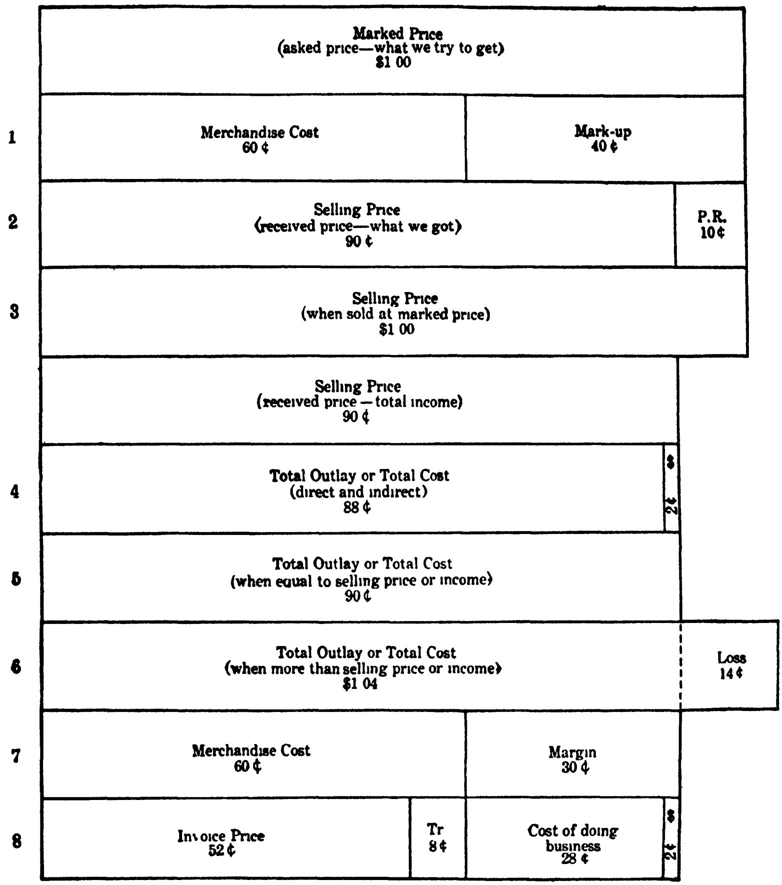
Self-evident? Of course it is. But the simplicity of the fact does not lessen the degree of its significance.

[1] NOTE: The eight equations given below are numbered for convenience in comparing with the correspondingly numbered sections in the accompanying diagram (page 91)

The figures are merely to represent illustrative or possible price elements, with no thought of applying to any specific store or line They are used only to help show the relationship between the component parts of *any* selling price, and how these relationships influence the resulting *profit.* The price elements represented are·

Marked price	$1 00
Merchandise cost	0 60
Mark-up	0 40
Price reduction	0 10
Selling price (when sold at marked price)	1 00
Selling price (assuming price reduction) .	0 90
Total outlay or total cost (when less than the selling price)	0.88
Total outlay or total cost (when equal to the selling price)	0 90
Total outlay or total income (when *more* than the selling price)	1.04
Loss (when total outlay exceeds total income)	0 14
Margin	0 30
Invoice price	0 52
Transportation . .	0 08
Cost of doing business ..	0 28
Profit.	0.02

GRAPHIC ANALYSIS OF THE SELLING PRICE



Abbreviations
- P R. Price reduction
- Tr Transportation
- $ Profit

FORM 14.

It involves the all-important element of mark-up, you know.

Then, taking another two-part division of the marked price, we have:

2. Marked price equals selling price plus price reduction.

($1 equals 90 cents plus 10 cents)

That, too, is self-evident. One reason for mentioning it is that it belongs in the picture, like land in a landscape. Its importance looms a bit, however, when the equation is changed to read:

Marked price minus price reduction equals selling price.

($1 minus 10 cents equals 90 cents)

This shows more clearly why price reductions need close watching; yes, even to the point of careful recording with a view to sensing promptly the significance of any variation in trend.

Obviously, no variation can exist without a *cause.* The cause of a shift in price reductions might be found, for example, in a change in the store's buying efficiency, a change in its selling efficiency, a change in its customer group, or in a combination of these. Important? It certainly is! But if, most happily, we should have no price reduction, we get the equation of perfection, which reads:

3. Marked price equals selling price.

($1 equals $1)

And that is the joyous condition always to be hoped for, if not invariably to be expected.

It is reasonably safe to assume, however, especially when the analysis applies to style lines or to any stock as a whole, that some degree of price reductions or mark-downs is about as inevitable as the proverbial death and taxes. Besides, the occasional item of dead stock that never is sold, well, that simply represents a price reduction of a full 100 per cent.

We therefore continue our analysis of the selling price on the basis of its being represented by the variation of the

second equation—marked price minus price reduction equals selling price—and as indicated by the unnumbered section of the diagram.

This section is, of course, the same as the selling price portion of the second section. It is repeated in the diagram merely to show that the subsequent analysis is based on the assumption that the selling price proper—the received price—is the only source of merchandising income, and that it usually *nets* less in the aggregate than the total marked price.

Realizing this will help us to center our thoughts effectively upon the significant fact that little old *P. R.* (price reductions), in the broad sense of including all that we tried to get, but did not get, stands out prominently as a shoal that wrecks many a hope for profit.

THE SELLING PRICE IS WHAT WE GET

We now turn our attention to the *real* selling price—the effective selling price—the selling price proper. For a two-division analysis, suppose we say:

4. Selling price equals total outlay (total cost) plus profit.

(90 cents equals 88 cents plus 2 cents)

Is that correct? Well, when we consider that the cost of the goods sold represents an *outlay* that is quite as essential in the making of a sale as is the cost of doing business, the equation must stand approved.

In the final analysis any business is, of course, nothing more than a matter of *income* and *outlay;* and its commercial *net* is found only through a summing-up of all of its *incomes* and all of its *outlays.* Furthermore, our merchandising income can be nothing more than the total selling price. Merchandising profit is, then, merely the difference between total selling price and total outlay.

Real managerial ability is required, however, in knowing definitely and positively just what the total selling price and the total outlay happens to be. Indeed, some of the

finest points of the game center about the fact that outlay is both direct and indirect; *visible* and *invisible*.

There is also, of course, the invisible influence of good will on *income*. But a highly significant point of difference is found between invisible income and invisible outlay. The former can become effective *only* through the selling price, if at all. The latter is effective whenever and whereever business is done.

Merely to emphasize the well-known existence of a dividing line—a commercial equator which separates the *profit zone* from the *loss zone*—we include the improbably possible equation:

5. Selling price equals total outlay or total cost.

(90 cents equals 90 cents)

Then, should the unfortunately more probable possibility of a total *outlay* in excess of the total *income* be encountered, we have the equation of commercial anemia which reads:

6. Selling price equals total outlay or total cost minus loss.

($1.04 minus 14 cents equals 90 cents)

In contrast with this anemic selling price, we have the red-blooded, healthy or normal selling price as represented by the fourth equation: Selling price equals total outlay (total cost) plus profit. But we must be sure to remember that the measure of the health is to be found only in that small segment of the diagram which is decorated with the dollar sign.

Then, making another two-part division of the selling price, we have:

7. Selling price equals merchandise cost plus margin.

(90 cents equals 60 cents plus 30 cents)

Recognizing merchandise cost as the delivered or landed cost of the goods bought (invoice price plus transportation); and knowing that margin is the total cost of doing business (expense) plus profit, we arrive at the all-important four-division analysis:

8. Selling price equals invoice price plus transportation plus cost of doing business plus profit.

And there we have, of course, the component parts of the wholesome selling price which we all know so well; but which, nevertheless, are worthy of careful and deliberate consideration now and then as a golden text in business.

THE MARK-UP TELLS THE PROFIT STORY

Remember that our diagram—our "graphic analysis of the selling price"—is prepared with no thought of representing suitable proportions for any given store, or for any specific item or line. Its purpose is two-fold:

1. To help us keep more clearly in mind the component parts of the selling price which must be included in the marked price, together with all phases of price reduction, if a profit is to be realized.

2. To direct our attention to possible happenings that may and often do interfere with the *production* of the *aimed-at profit.*

The diagram therefore contains more sections or divisions representing possible situations, than can apply at any one time. The extras are included to remind us of *possibilities* rather than *probabilities.* And the fact that they are merely *possibilities* is, after all, the outstanding reason why they need special study and particular watching.

A similar diagram, representing equations 1, 7 and 8 only, should suffice for practical application in almost any store. Every merchant who likes the charting idea and realizes how helpful it can be made, will be sure to construct such a diagram with proportions that picture accurately the situation in his own business.

As a line 6¼ inches long will give 100 points of 1/16-inch length, we readily see how easy it is to draw a rough diagram in accurate proportion. Those who start by making a diagram to represent the situation for the store as a whole, will be practically sure to follow with a separate diagram for each of the most important merchandise divisions.

The profit-making helpfulness of such a simple analysis, especially when made to stand out boldly through the pic-

ture provided by a diagram of accurate proportions, will become increasingly apparent to whatever degree it is applied studiously, that is, *thinkingly.*

But whether or not we use the diagram, we are bound to recognize the helpfulness that results from reminding ourselves frequently of the vital fact that our mark-up *must include:*

1. *All* price reductions.
2. *All* cost of doing business, which includes the *invisibles* as well as the *visibles.*
3. *All* profit.

In other words—and this is a good way to look at it—the mark-up must cover *all* phases of price reduction and the necessary margin to produce the desired *profit.*

MARGIN IS THE ONLY SOURCE OF PROFIT

The right mark-up plays its important part in our planning for profit, then, because it leads to the *margin* which is the direct and only source of realized profit.

Of course we all know well enough that the desired profit must be planned into the mark-up, together with ample provision for price reductions and every element of the cost of doing business, including stock shortages and all forms of invisible expense.

And we all know, too, that we need every available helpful guide in the accomplishment of this great merchandising feat which, together with reaching a suitable sales quota, stands as the supreme test of merchandising ability.

New possibilities for the profitable application of recorded information in their own stores, are being discovered right along by those who are well into the habit of working with their figures *thinkingly.* No one has reached the limit; and the farther one goes, if on the right track, the more ways he finds to make his figures *helpful* in his job of *profit producing.*

In spite of this, however, some seem to remain quite firm in their belief that about all they need in the way of figure-information is just enough to help them get by on income tax reports. A man of this type, after listening at a manage-

ment conference to a discussion of the various factors that influence *profit* via the *margin*, came out with this pithy comment:

"What's the use of all this monkey business? You buy as low as you can and sell as high as you can and do as much of it as you can, and that's all there is to it. If you have horse sense enough, you're all right; if you haven't, you're all wrong. That's what I see in business."

The value of his contribution lies in serving us as an effective reminder that the one and only use of the monkey business is to increase the quantity and quality of our commercial horse sense. Unless it does just that, it falls down on the biggest and most important part of its job.

Our analysis and study of the selling price is obviously futile unless it helps us to work more effectively in the realization that *margin*, not mark-up, is the direct and only source of *profit;* unless it helps us in doing a better job of "buy as low as you can and sell as high as you can and do as much of it as you can," as considered in terms of the long run.

THE CUSTOMER DETERMINES THE MARGIN

But let us be sure to remember, also, that our margin is not determined by our figures, nor by our figure-information; between which, incidentally, a real distinction exists. Figure-information will *help*, but that is all. In the last analysis, it always is what we are able to get—not what our figure-information indicates we *should get*—that determines our *margin*.

And the significant point is that our customer is the one who always has the final say-so on what we are able to get. *Merchants set the mark-up; customers determine the margin.*

However, this in no way indicates that our mark-up and margin figures are any the less helpful, or our sales efforts any the less important. On the contrary, it shows why every available helpful influence must be used to the best advantage possible to guide us in getting our customers to make their decisions in accordance with our commercial needs.

Of course a variety of influences come into play in our arrival at the marked price, and our customer's arrival at the selling price. We need to consider, for example, such factors as:

1. The cost price of the merchandise.
2. The goods themselves—their utility, style and quality.
3. The selling ability and capacity of the store.
4. The customer demand, both active and potential.
5. The character, extent, customer-recognition and customer-appreciation of the store's service.
6. The strength and attractiveness of the competition.

Clearly, all of these enter into the making of the selling price; but it never becomes a selling price, as we use the term, without the consent of the customer.

The importance of knowing the *right* mark-up—that is, the *right* Marked Price—as nearly as we can, stands out impressively when we thoughtfully consider these well-known and entirely obvious facts:

1. When the price is too low, margin and profit must suffer.
2. When the price is too high, sales and potential profit will dwindle.

Perhaps no one can know definitely and positively whether a given cost price is exactly right. Perhaps no one can know definitely and positively whether a given mark-up or retail price is exactly right.

But all of us can analyze the selling price, keep its component parts clearly in mind, have a well-defined aim as to profit-production and *know,* through the aid of our records, how close we come to hitting the bull's eye of the profit target.

That procedure will serve us as an effective guide. It will help to bring us increasingly nearer to knowing the right *mark*-up and getting the right *margin.*

That procedure will keep us reminded of the pivotal fact that only through the *right mark-up* is the *right margin* available; and that only through the *right margin* is the *aimed-at profit* obtainable.

CHAPTER VIII

HOW A BETTER EXPENSE BUDGET LEADS TO GREATER RETAIL PROFIT

The purpose of the expense budget is to control expense, rather than to reduce it. Expense is properly controlled when it harmonizes with the other essential parts of the profit-making program; when the expenditures produce the desired profit, under the existing conditions, at a consistent or logical cost. It is not the amount of expense that counts, but its relationship to results.

Expense budgets center the attention of the manager on expenditures before they are made, and provide a basis for comparing accomplishment with aim, for comparing actual results with planned results. Accounting analyzes the expense that has been incurred. Budgeting analyzes the expense that is to be incurred. A good budget system has an advantageous influence on, and is advantageously influenced by, the accounting system. The one helps the other.

The great highlight always to be remembered is this: So far as the internal influences of the store are concerned, merchandising profit depends invariably upon four essential elements— upon four vital organs of the business— upon sales, stocks, margins and expenses.

These must be in sound condition, separately; and they must function in harmonious relationship with each other; "for this is the law and the 'profit.'"

Every phase of fundamental planning for retail profit is founded squarely upon these four essential elements which, from the standpoint of looking ahead, usually are known as sales quotas, stock limits, mark-ups and expense budgets.

Now, as the first three elements in this basic quartet of retail planning have been discussed in preceding chapters,

we are ready to take up the "last, but not least," the expense budget.

Since practically every merchant now realizes the necessity of having a complete budget of his cost of doing business, the leading question has become: Can the expense budget be put to better use? We turn our thoughts, therefore to "how a better expense budget leads to greater retail profit."

A BRIEF SUMMARY OF CHIEF PURPOSES

At this point, it is well to remind ourselves that we still are dealing with the *planning* phase of the process of profit production. We continue to consider the job of looking ahead to the most profitable operation of the business, the job of formulating definitely the four basic essentials to assure the greatest possible reward for our business risks and efforts.

A big portion of our planning job is, of course, to see that each basic element is sound in itself, and that each is geared properly to function effectively and harmoniously with the others toward reaching our definite aim in the production of profit.

"Unity of purpose and unity of action" are quite as necessary in the vital organs of the business as in its personnel. As someone has said so aptly of cooperation: It simply is a case of "all pulling on the same rope at the same time in the same direction."

But the direction must be *right,* of course, to bring us to the desired goal. We must *know* whether or not we are pulling in the right direction; and we cannot know that unless we have a definite and clearly recognized *goal;* the more definite and the more clearly recognized, the better.

So a carefully determined goal is essential. And we always must bear in mind the particularly important and well-known fact that the real goal of our business is *profit,* not sales.

To bear in mind. Ah, there's the rub! Merely to recognize *profit*, not sales, as our commercial target is as child's play; but to bear that obvious fact in mind sufficiently to avoid sidetracking and to keep thoughts and efforts ever on the main line, that's a *man's job!*

We all know, of course, that the great first aid in arriving at any goal is found in definite or specific *planning*. We know that reaching our aim in profit production requires such planning for the four vital organs of the business, individually and collectively.

For the sake of a helpful review, let us therefore consider a brief summary of the underlying purpose of each basic factor in planning for retail profit:

1. Sales quota: To establish a consistent volume of sales for which to strive.

2. Stock limit: To determine the reasonable minimum of investment in merchandise with which the planned volume of sales can be reached with reasonable cost and effort.

3. Mark-up: To assure an adequate margin, to assure the safe return of all expenditures, and to bring the aimed-at profit.

4. Expense budget: To safeguard the margin and its small vulnerable spot commonly known as *profit.*

HOW THE EXPENSE BUDGET AFFECTS THE PROFIT PROGRAM

Let us now take a moment to consider briefly the influence of the expense budget on the other basic factors in planning for retail profit.

First, as to the sales quota: We realize, of course, that the making of sales requires both a suitable setting and an effective driving force; a *place for* selling, as well as the *activity of* selling.

We know, too, that both of these cost money. The extent to which we are able and willing to provide the necessary funds is bound to influence the character of the setting and the power of the driving force; and these,

in turn, are bound to influence the volume of sales, both the quantity and kind of merchandise sold, and the price obtained.

In fact, the expense budget serves as a sort of throttle for the entire acting division of our profit-producing program, for every phase of buying and selling. So we readily see how logically and completely the sales quota must be in accord with the say of the expense budget.

Second, as to the stock limit: How will the expense budget influence this division of our program? Well, we know, for example, that consistent stock limitation does these two things: it leads to and depends on *right buying.*

Buying goods also costs money, no matter by whom the buying is done. The best buyer in the world is unable to function advantageously without suitable means and adequate equipment for obtaining the information upon which his conclusions must be based.

Furthermore, the stock limit depends upon right buying to the extent that the movement of the stock is influenced by the character and assortment of the merchandise, as well as by the character and extent of the selling activities; the displaying, advertising, and personal contacts.

Saleable merchandise is, after all, the real *ammunition* of salesmanship in all of its phases. The salesmanship itself is merely the gun by means of which the ammunition is *placed* effectively. The "sinews of war" always must be provided.

While we realize that the expense budget alone cannot accomplish the desired result, we know that without funds, well, the game is up! So the influence of the expense budget on the stock limit is clearly apparent.

Third, as to the *mark-up:* More direct, perhaps, though not more important or effective, is the influence of the expense budget on the mark-up and, consequently, on the margin and the *profit.*

Since the mark-up (the original mark-up, of course) embodies all of the price reductions and all of the margin (all of the expense and all of the profit), we readily see

that a highly important relationship exists between the expense budget and the mark-up.

IT'S THE RELATIONSHIP THAT COUNTS

Truly, the more we think about, "Can the expense budget be put to better use?" the more clearly are we sure to realize *why* the *harmonious relationship* between the four basic essentials—sales, stocks, margins and expenses—is the *magic secret* in profitable retailing.

Therein, indeed, we find the outstanding reason why a merchant invariably operates under a severe handicap, though perhaps unknowingly, when he undertakes to manage his business without the guiding influence of a *complete plan* for the production of his finished product, *profit*.

Unfortunately, the profit-destroying influence of inharmonious and uncontrolled operation frequently remains unsuspected and unrecognized over a long period of apparently smooth sailing, like the unknown physical defects that undermine bodily health so slowly, yet so surely.

As in the case of any machine or any living organism, the vital parts of the business must work together in harmonious relationship, both to produce maximum results currently and to extend the span of life.

Many an athlete of outstanding accomplishment has met a premature break through the over development of certain bodily organs or the under development of others, whichever way you care to put it. The *big point* is that his career was cut short because of discordant development; because of the inharmonious relationship between *vital parts*.

On the other hand, our human life tenure is being lengthened steadily; a great achievement. How is it done? No need to discuss the details. It all sums up in the development of a more harmonious relationship in the condition and functioning of vital parts.

Can the expense budget be put to better use? We might change the question to: Can the expense budget

be made to *function more harmoniously* with the other basic factors in successful planning for retail Profit?

Surely, satisfactory results are more to be expected when the mark-up is more accurately *gaged* in accordance with carefully planned and frequently tested cost of doing business; when it provides the margin that will produce the profit which cool judgment tells us will lead to the greatest ultimate reward for our service, when the entire business program is planned for maximum long-run results.

HOW TO MAKE AN EXPENSE BUDGET

With the above thought in mind, let us turn our consideration briefly to the process of constructing a satisfactory expense budget.

We understand, of course, that an expense budget is nothing more than a *classified plan* of the entire cost of doing business. We know that budgets necessarily vary to meet individual requirements, and that the basic principle of budget constructing always remains the same.

And it always is easy. So easy, indeed, that perhaps the best instruction for those who may never have made an expense budget is just plain "do it now." Put down in black and white your closest possible estimate of every expense you expect to be required to meet in a given time-period. Presto, you have a budget!

Such a budget will not be a perfect product, of course not; but it is safe to say that no self-respecting budget ever feels the glow of perfection. There always is room for improvement, though the exact nature of the possible improvement may not always be apparent.

We start logically with whatever judgment-guiding information we may have available, and then pull constantly for *ever-increasing betterment.* Something is wrong, you know, when improvement fails to follow in the wake of continued practice.

So the thing of first importance in making an expense budget is to make one; and the thing of next importance is to *make the next one better.*

To illustrate the principle, let us consider again the "revised schedule" of our first rough sketch of a complete program as given in Chap. I, page 19.

Sales quota			$100,000—100 per cent
Stock limit	Retail value		25,000 } 4 turns
	Cost value		18,750
Mark-up		$25,000—25 per cent	
Mark-downs		1,000—1 per cent	
Expected margin			24,000—24 per cent
Expense budget			21,700—21 7 per cent

Now, so far as the expense budget is concerned, this program merely tells us that a maximum of $21,700 or 21.7 per cent of the expected sales is to be spent in the period covered by the schedule.

The next question is: How will it be spent? How much will go for *visible* expense? How much for *invisible* expense? How much will be needed for rent, salaries, heat, light, delivery, insurance, taxes, shrinkage, spoilage, stock shortage, bad-account loss and for any other items that may be included in the store's classification of expense?

All of such details are taken into consideration in a general way, when the first rough totals for the first rough draft of the profit-producing program are formulated. But it is when we get into the details *specifically*, that we begin to see more clearly what adjustments may be needed to establish the most satisfactory ratios.

In fact, the most *telling* part in our job of constructing the most advantageous expense budget, is found in this very matter of adjustment. Both totals and details may require a number of adjustments to bring our planned process of profit producing satisfactorily in tune.

AVERAGES MAY MISLEAD

Many cost studies for specific lines of business have been made in recent years. This is a thoroughly worthwhile undertaking, but it is not without its possible pitfalls.

The danger lies, of course, in consciously or unconsciously assuming that the published averages or common figures

are directly applicable to an individual store that happens to operate under conditions similar to those of the stores from which the statistics were obtained.

General guidance of real value is to be gleaned from knowledge of what is common among other stores of similar size and kind which operate under similar conditions; but not *specific* guidance.

Following the lead of published cost figures too closely in the construction of our expense budget has a tendency to weaken our great asset of individuality. On the other hand, using such figures merely as a basis for general comparison will help us more fully to recognize and more effectively to strengthen and develop our *profitable individuality.*

Consider the expense item of advertising, for example. Suppose a given store is determining how much it should spend for advertising in the period ahead. It may look at the published figures and find that similar stores are devoting a certain percentage of sales to this means of maintaining and increasing business. Should it follow that lead specifically?

Well, what if John Wanamaker had followed such a lead in determining how much of his first day's sales to spend on advertising? Would the story of his merchandising success read as it does? Advertising, as you know, is a question of *results obtained* rather than of amount expended. The *value* of advertising is not to be measured by what it has cost.

The thing that counts is what we *get*, not what we *pay*. It is as true in advertising as in anything else that we do not *get* "something for nothing." But it is as surprisingly easy in advertising as in some other undertakings to *pay* something for nothing.

Obviously, the results obtained from advertising—the *value* of advertising—depends much more upon its character and its fitting properly into the specific needs of the individual store, than upon the percentage of the sales or the amount of money that may be applied to advertising.

How much should any store spend for advertising? All that it can spend *profitably,* of course. And that is much more definitely to be determined through the comparison and study of the store's own previous experience and possibilities than by following the lead of common practice among similar stores.

Only through a coincidence can an average ever fit an individual or specific case. What commonly is being done by others under comparable circumstances, always is worth thinking about; but it is worth *following* only when we can see clearly just *how* and *why* it meets our own requirement.

FREQUENT COMPARISON IS NECESSARY

The important thing about our expense budget is, then, not how it compares with the expense budgets of other stores; but how it *harmonizes* with the other activities of our own store.

Comparison with what others have done and are doing is helpful, certainly; but comparison with what we ourselves have done, and are doing, and are going to do, is absolutely essential. And up to the limit of practicability, the more frequent the comparison the better the result.

We all know that the really modern merchant has outgrown the old failure-courting practice of depending on an annual inventory to measure the result of his efforts, to determine whether and to what extent he is moving ——ahead or reverse.

We know that the progressive merchant of today recognizes the helpfulness of taking his bearings definitely and frequently, once a month, perhaps. He realizes that *time divisions* are quite as important as *merchandise divisions* in the process of profit producing.

When the monthly measure is applied, the expense budget also is to be considered in monthly sections. In a way, each month will have its own expense budget. That is, the budget for the month will be considered separately, though merely as a suitable division of the budget for the year.

Some items—rent, for example—remain fixed month after month, of course. Other items will vary month by month, and these are the ones that call for special monthly watchfulness. Both direct and indirect savings may result therefrom.

A direct saving is accomplished when an item of expense is reduced without detriment to the ultimate profit of the business; as, for example, eliminating the blue stripes from government mail bags.

Keen observation alone will lead to many a direct saving, of course. Most anyone will notice a light that is burning unnecessarily, the wrapping material that is used too freely, the reckless use of expensive stationery, time-wasting on the part of employees, and many other common loss-causers.

But even these readily visible ills come much more surely to notice and effective attention when an information-revealing and observation-impelling budget is properly on the job. The blue stripes remained in the mail bags, remember, until the now famous federal budget began to function.

An indirect saving is accomplished when, through recognition of a specific need, more productive effort is applied to improve the ratio between outlay and income; when, for example, a bit more vigorous selling is made to reduce the expense percentage for the dull months.

The first important step, of course, is to recognize the specific possibility. That is why careful apportionment of expense to meet the consistent needs of each month is decidedly helpful. It leads to more frequent comparison through which *possibilities* are brought to light and better results are obtained, greater profit per dollar used.

A GOOD BUDGET SYSTEM IMPROVES CONSTANTLY

The right kind of a budget system, like the right kind of a quota system (which is but another form of budgeting), is bound to improve through thoughtful application.

A good budget system is, therefore, a *growing* institution. It has sufficient life and flexibility to stand suitable adjustments to meet changing conditions. It grows steadily stronger and better and more effective. Unless it does so, it cannot measure up to the fullness of its possibilities.

In this connection, let us be sure to bear in mind the difference between an expense budget and an expense analysis. Let us remember the budget as a classified plan of the expense we *expect* to incur in a given time, and the analysis as a classification of the expense that actually *has been* incurred.

This recognition is necessary because of the working relationship between the budget system and the accounting system. The two must work hand in hand, as it were. A good budget system has an advantageous influence on, and is advantageously influenced by, the accounting system.

As it might be put: A good expense budget guides us to a more suitable expense analysis, when that is possible; and the expense analysis guides to a more helpful expense budget, when that is possible. An adequate budget results in better accounting, and adequate accounting results in a better budget. The one nourishes the other.

Of course this does not mean that changes necessarily should be made every time a statement is drawn. It does mean, however, that we must be ever on the lookout for opportunities to make improvements, and remember that something is wrong if we do not find them now and then.

Besides, possibilities for improvement are found more frequently in the *practical use* to be made of the information at hand, than in the method of obtaining it, or in additional information which might be developed.

As in every other phase of records and figure-information, the value of the expense budget depends far less upon *what it is* than upon *what is done with it.* And on that score, the limit of possible improvement is not to be reached. Truly, a good budget system improves constantly.

SOME PRACTICAL USES OF THE EXPENSE BUDGET

The chief purpose of the expense budget was summarized at the beginning of this chapter: To safeguard the margin and its small vulnerable spot commonly known as *profit.*

Of course the margin is mentioned, in this summary of the purpose, only to emphasize the tremendously important fact that *profit* can be safeguarded only through the protection of the margin. We may have margin without *profit,* certainly; but never *profit* without margin. So we find a practical use of the expense budget in helping to *protect profit.*

Two facts, though entirely obvious, deserve special attention in considering *practical uses* of the expense budget:

1. Profit cannot be *protected* until it is *produced.*
2. Profit is not worth *producing* unless it is *protected.*

We therefore find another practical use of the expense budget in helping to *produce* as well as to *protect profit.*

A helpful guide in making increasingly better or more practical use of the expense budget may be obtained by keeping clearly in mind its two-fold purpose which is:

1. To center managerial attention on expenditures before they are made; to "lock the barn door before the horse is stolen."
2. To serve as a basis for comparing accomplishment with aim, thereby aiding in the improvement of both the worthiness of our profit-target and the trueness of our commercial marksmanship.

And then we must keep in mind the fact that the prime *practical use* of the expense budget is to *control* rather than to *reduce* expense.

The expense-reducing phase of the budget can be applied *profitably* only when it eliminates *unnecessary* expenditures. It pertains to the direct saving possibilities as previously mentioned. It is effective when it takes the *blue stripes out of the mail bags.* In this connection, it is well to remember what some great thinker has said so aptly: "*Expense must be limited to the worth of the occasion.*"

More easily said than done, certainly! It requires both *advanced thinking* and *thinking in advance* to comply with the generally understood wisdom of that impressive remark. But that is where the *practical use* of the expense budget comes in, to help us do it.

The expense-controlling phase of the budget is a somewhat different matter. It involves the fact that something more is required than merely to limit expense to the worth of the occasion. It implies that no worthy occasion—that is, no *profit-producing* occasion—be lost through failure to apply available funds.

Expense is properly controlled when it is made to *harmonize* with the other factors in our profit-making program; when each expense is justified as a means for producing the desired profit under the existing conditions; when *every* expense is a *profitable* investment, and when no opportunities are lost through neglect.

Other practical uses of the expense budget readily suggest themselves. Many a merchant testifies to the *practical use* of the budget in helping to secure greater interest, more thoughtfulness and better effort on the part of employees; tremendously valuable *by-products.*

But it all sums up in the use the manager himself makes of his budget. Only to the extent that he himself sees "how a better expense budget leads to greater retail profit" can satisfactory results be obtained. And the encouraging fact is that continued thoughtful use surely will enlarge his vision of possibilities.

Expense Budget Report for the Month of_ 19_ _ _

Expense item	Total budget for year	For year to date			Remaining in budget	For this month			Budget for next month
		Budget	Expended	Difference (excess in red)		Budget	Expended	Difference (excess in red)	
Totals									

Form 15.—A good budget system requires a good budget report form The above illustration suggests a suitable arrangement of a monthly report blank which covers the essential information for the year to date.

CHAPTER IX

GAGING PROFIT BY LINES

With the cost of doing business analyzed according to the two primary functions of the store—to "carry" goods and to "sell" them—a short-cut method is available for gaging profit by lines with remarkable ease and accuracy. Time cost is for carrying the goods in stock; effort cost for selling them. Both are reduced to percentage.

Time cost is gaged according to the average length of time the goods remain in stock. All of the remaining cost is for selling effort. Margin is gaged by means of a simple mark-up record. Margin less total cost (time cost plus effort cost) equals profit. The simple process can be applied with good results in any kind or size of retail store.

No element in merchandising guides more surely to *profit volume* than does ability to gage profit *by lines* with reasonable accuracy. Our present subject is, therefore, worthy of particularly thoughtful consideration. The most helpful discussion of this important subject calls for some studious thinking about two especially significant phases of the cost of doing business.

We must make an analytic study of every element of expense, but along entirely different lines than those commonly followed. This analysis is based on the obvious fact that the costs incident to operating a retail store are occasioned by the two fundamental functions of the store, which are:

1. To carry merchandise in stock.
2. To sell that merchandise.

We might say, of course, that the selling function embodies the carrying function because the goods are carried in stock for the sole purpose of making the sale of

the merchandise possible. However, we readily can see that the two divisions are sufficiently distinct for a clear separation.

Separation into carrying and selling functions, serves as the basis for a remarkably helpful analysis of expense or cost of doing business. Since this analysis serves as a practicable basis for gaging profit by lines, it needs no further justification.

So we separate expense or cost of doing business into two clearly distinct divisions or classes. The one based on carrying starts to accumulate the moment that merchandise comes into our possession, while the one based on selling begins the moment we put forth the first effort toward transferring the ownership to a customer.

The one class may be called time cost because it varies according to the length of time the goods remain in stock. The other may be termed effort cost because it is determined by the amount of effort required to complete the sale.

The great profit-producing possibilities in this seemingly obvious and certainly simple classification will be sure to grow rapidly in the mind of any merchant who studies it carefully and thoughtfully with a view to making profitable use of it in his own business.

TWO HELPFUL DISCOVERIES

Some may be inclined to say, on first thought, that it makes no particular difference whether the expense incurred in making a sale is for merely holding the merchandise in readiness for a customer, or for actually doing something to assist a customer or prospective customer in making the purchase.

On further study, however, it becomes quickly apparent that this simple division of the cost of doing business really provides an easily applied yet thoroughly dependable method of gaging the profit-making possibility in any line of merchandise, and is, therefore, of outstanding importance.

The principle underlying this method is one of two, both extremely simple, that stand out as predominantly helpful discoveries in modern methods of retail management and control.

One of these principles concerns the fact that it is possible to ascertain the cost of goods sold without figuring the cost price of each sale. It is the essence of what has come to be commonly known as the "retail inventory method." It determines the cost of the goods sold by simply deducting from the total sales plus all price reductions, the percentage of average mark-up as revealed through an easily maintained mark-up record. Such a record is presented in Chap. XII.

The other principle—the one with which we are now dealing more specifically—concerns the fact that it is possible to gage the *profit* in any department or line or item without making a direct analysis of either the sales or the cost of doing business as it may affect the specific division of merchandise. It is in the application of this principle that the time and effort classification of expense or cost of doing business is needed. The simple process involved is described and illustrated in this chapter.

The far-reaching importance and practical value of this latter discovery becomes quickly apparent when we see that it really provides an effective short-cut method which enables any type or size of store to operate with definite knowledge of where profit is, and where it is not; with a clear recognition of the profit-making possibility in each line of merchandise.

Who can think of anything that can be of greater help and guidance to the retail manager? How can any merchant do a good job of increasing profits and decreasing losses for the benefit of ultimate *profit volume* unless he knows definitely where the profits are and where the losses are?

Probably no merchandising practice is more destructive of profit than treating varying lines of merchandise as if their cost of doing business were the same; than the use of

an average per cent of cost of doing business to represent the cost of handling a specific item or line.

Stocks must be separated into lines and profit must be figured separately for each of these lines because averages never can fit specific cases. This means, of course, that both the margin and the cost of doing business must be known for each separate line of merchandise. The new method not only makes this possible, but it reveals the necessary information with remarkable ease and speed.

THE PROFIT-MAKING CONTEST

Every item or line of merchandise that enters the store, enters also into a contest, as it may well be expressed, with every other item or line in the store. It is a contest in profit producing. The winners are the best producers.

That is why every merchant needs a dependable method through which he can know his profit by lines. Without this, he invariably operates under a severe handicap. He must know the winners; and he must know the relative standing of the contestants. Otherwise, he obviously is batting in the dark.

In the past, we had no practicable means for obtaining this helpful information that could be used in both small stores and large stores. Indeed, the detailed analysis of both sales and expenses by lines is far beyond the reach of the small store and quite questionable in the large store.

Happily, the proper application of the principle based on the separation of expenses into time and effort divisions makes the detailed analysis unnecessary. The principle is therefore applicable to both large and small stores.

The object is, of course, to be able to recognize the winners and the losers and their relative standing with sufficient accuracy to provide a dependable guide in the managerial job of making the entire performance produce the maximum profit. The time and effort division of expense proves helpful only to the extent that it can be made to serve as such a guide; but to that extent it proves enormously helpful.

Any attempt to carry an analysis to a finer point than is required in making the most profitable use of the resulting information, is an obvious waste. Each manager must decide for himself how far his analysis should go and, with but little thoughtful practice, anyone competent to manage a store can do that successfully.

Let us be sure to bear in mind that the sole purpose of the time and effort analysis is to help us in knowing the profit-making lines more definitely, and that this information is to serve in a practical way as a guide to maximum profit volume.

TIME COST IS FOR "ROOM RENT"

The terms time cost and effort cost almost explain themselves. Time cost obviously includes all of the costs incident to carrying or housing the merchandise while it is in the possession of the store. Every other element of expense is incident to some phase of selling effort and may therefore be classified as effort cost.

We may well say, then, that time cost is the room rent of the goods to be sold. With this simple analogy in mind, we readily see that any item of merchandise will incur time cost in proportion to the length of its stay in the store.

Now, since different lines of merchandise vary as to the length of time they remain in stock, it is obvious that they cannot all incur the same ratio of time cost. This simply means, in other words, that the longer any item remains in stock, the more it costs to keep it there.

Furthermore, every item in the store is sure to consume its full share of time cost, whether or not anything is paid out specifically on account of that item. Each line of merchandise should, therefore, be charged (though without detailed figures) with its proper proportion of expense as incurred through the necessity of having those goods on hand.

Now, in analyzing the cost of doing business on this basis, we find that such expense items as are listed below come under the classification of time cost:

Rent (market value, if store is owned).
Heat.
Light.
Insurance, Taxes — on merchandise and equipment only, not on buildings.
Interest (on total investment, both borrowed and owned).
Depreciation of store equipment
Depreciation of merchandise (including stock shrinkages and stock shortages).
Wages, Supplies — incident to maintenance.
Portion of buying expense, Portion of management expense — usually half
Other costs (incident to maintenance).

The expense statement of any store can be divided easily, on the basis of the above classification, to show how much of it is incident to time cost; that is, the cost of obtaining the merchandise and housing it until it is safely in the possession of a customer, preferably a satisfied customer.

As soon as this amount is known, it is easy to ascertain its percentage on sales through simply dividing the amount of the time cost by the total sales. Then, by dividing this per cent by the number of months the goods remain in stock on the average, we obtain the per cent of time cost per month, which is the really important figure.

EFFORT COST IS FOR "SERVICE"

Now as to the effort division of the cost of doing business: This includes all of the costs involved in the energy or effort or labor required in making sales; in getting the merchandise into the possession of satisfied customers. In a way, it may all be summed up in the one word, "service."

The important point is to make a clear distinction between the cost incident to having the goods *in* stock, and the cost incident to getting the goods *out* of stock; the cost incident to carrying the goods and the cost incident to selling them.

When we know what portion or how much of our cost of doing business belongs under the classification of time

cost, we can ascertain the amount of the effort cost by subtraction. Effort cost includes every element of expense that does not classify as time cost. Total cost minus time cost, therefore, equals effort cost.

But it is much better, of course, to make a separate and complete statement of all effort items because that gives us a more dependable analysis. We then can obtain a proof by seeing that the total of the two divisions equals the total cost of doing business, as it must.

The various items of effort cost are readily recognized when we bear in mind that they include everything incident to selling the goods and getting them into the possession of our customers. The following list of effort-cost items is representative and will serve as a guide in properly classifying the expense accounts for any store:

Advertising.
Displaying.
Personal selling (including the manager's time devoted to selling).
$\left.\begin{array}{l}\text{Wages}\\ \text{Supplies}\end{array}\right\}$ incident to selling and delivering.
Depreciation of delivery equipment.
$\left.\begin{array}{l}\text{Portion of buying expense}\\ \text{Portion of management expense}\end{array}\right\}$ usually half.
Other costs (incident to selling and delivering).

As management and buying are necessary in both having the goods on hand and selling them, these items may be divided equally between time cost and effort cost unless some unusual situation suggests a more suitable ratio.

EACH LINE AS A SEPARATE BUSINESS

Every profit-determining principle that applies to the store as a whole, applies also to every line of merchandise in that store. This fact makes it decidedly helpful to form a mental picture of each line as being a separate business, as having its own job of profit-producing to perform.

Such a mental picture helps us to see more clearly just how and why the divisions of time cost and effort cost can be used effectively in making a practical test of every line to determine whether it is a winner or a loser and,

to a reasonably accurate degree, the extent of the winning or the losing.

It helps us to realize more fully that the cost of doing business depends fundamentally upon these two factors, whether applied to an individual line or to the store as a whole:

1. The length of time the goods remain in stock.
2. The amount of effort required in selling the goods.

When we separate these two elements of cost with sufficient accuracy for practical guidance in determining where and to what extent profits are possible or impossible, we have carried the analysis as far as profitable use requires.

It also is necessary to separate the business into distinct lines or merchandise divisions from the standpoint of the profit-producing power in each, because that is the only basis on which the activities of the store can be guided to the goal of maximum profit volume.

Applying the same per cent of cost of doing business to every line of merchandise is about the best way imaginable to play into the hands of competitors who recognize the difference in cost by lines.

That practice simply means that some lines will be priced too high and others too low. This tends, of course, toward losing the profitable business and retaining the unprofitable business; a situation which is doubly hard on profit volume and doubly helpful to competitors.

TIME COST VARIES GREATLY

Highly significant is the fact that the major difference in the cost of doing business, as applied to various lines of merchandise, is found in the element of time cost. This is due, of course, to the wide variation in the length of time that different classes of merchandise remain in stock.

Since cost varies in accordance with the length of time the goods are carried, it is obvious that the slow movers are the high-cost items and the fast movers are the low-cost items.

Then, since some goods are sold without ever being in stock and some goods remain indefinitely—very indefinitely, it may be—the variation in time cost actually ranges from less than nothing to almost limitless realms.

The less-than-nothing case is well illustrated by the mail order house which, in some instances, is paid in advance; that is, receives the money from its customers before the goods are bought for them. Under that delightful condition, the time element is reversed from a cost to an income. The income is represented by the value of the use of the prepaid amount.

Turn from this enviable picture to some of the items that occasionally are found in retail stores, items that have consumed time cost or room rent continuously since, well, since whenever it was that they entered the fold.

But we need not resort to extremes to clarify the point. Every retailer recognizes variation in the length of time that different lines or classes of merchandise remain in stock; and it is obvious that the extent of that variation measures the variation in time cost as applied to those goods.

Yes, every item that remains in stock longer than the reasonable time consistently required in transferring possession to a customer, surely gnaws away at the vitals of profit volume in full proportion to the extent of the stay. The longer it remains, the more time cost it consumes.

And that important fact points directly to one of the chief reasons why profit often turns out considerably short of carefully calculated expectations. Some of the boarders stay too long and pay too little.

Measurable variation in staying-time exists, however, even when every item makes its trip through the store on schedule. That is why it always is tremendously important to consider the *time* cost in determining whether or not a given mark-up suffices.

EFFORT COST VARIES SLIGHTLY

When we think of the vast difference in effort required to sell and get into satisfactory use a washing machine and

a spool of thread, for example, we may well be tempted to assume that effort cost, as applied to different lines of merchandise, will show a greater degree of variation than does the cost of carrying the goods in stock.

So far as the quantity of effort is concerned, the variation is clearly great. But our calculation must be based on percentage or ratio, not quantity or amount; and several influences tend to equalize the per cent of effort cost required in selling various lines. In consequence, the effort-cost percentages remain quite uniform.

The chief leveling factor lies, of course, in the fact that, as a general rule, the greater the amount of selling effort required the greater will be the amount of the sale; and the less the amount of selling effort required, the less will be the amount of the sale. Thus the general tendency clearly is toward the equalization of the effort-cost percentage.

Again, practically no more actual effort is required to complete the sale on an item that has remained in stock a long time, than if it has been sold soon after arrival. In other words, variation in the length of time the goods remain in stock has but little influence on the effort cost; but it directly determines the time cost.

Of course we do not lose sight of the fact that new goods are sold more readily than those that have been longer in the store. This is due largely to variation in the degree of enthusiasm on the part of the sales force, a difference in *quality* of effort, rather than *quantity*.

Furthermore, no selling effort is being expended while goods merely are waiting for a customer, but the cost incident to carrying those goods in stock continues to accumulate as long as they remain.

On the whole, the percentage variation in effort cost on various lines of merchandise is so slight that satisfactory results are obtained by applying the same per cent to all lines unless some especially apparent difference prompts otherwise. In that case, the difference can be estimated as indicated in our illustration of the process on page 125.

TIME COST AVERAGES ABOUT 2 PER CENT PER MONTH

While the time cost consumed by any item or line varies in direct proportion to the length of time the goods remain in stock, the per cent per month of stay in the store remains remarkably constant; not only for all lines, but also for all stores. It is this fact that makes the short-cut method of determining cost and profit by lines decidedly practicable and surprisingly easy to apply.

Extensive experiments conducted chiefly by Stockdale Service, Inc., who also deserve credit for launching the plan, indicate that time cost averages about two per cent per month for the length of time the goods remain in stock, in stores that operate under reasonably normal conditions.

Of course every manager who aims at the best possible results will analyze his own cost of doing business to determine the ratio of time cost and effort cost that actually exists in his own store. Until he gets his own percentages, however, he can use the general average of two per cent per month for time cost with good effect, especially from the standpoint of an experiment.

Every manager knows his own cost of doing business for the store as a whole. He also knows how many times he turns his stock each year, how long his merchandise remains in the store on the average. With this information and the two-per-cent-per-month basis for time cost, he is equipped to arrive immediately and easily at some fairly indicative conclusions.

Suppose, for example, that the cost of doing business in a given store happens to be 21.5 per cent of the total sales, and that the entire stock is turned 2.7 times a year, once every 4.4 months.

Taking 2 per cent per month for time cost, we readily determine that this element (time cost) consumes approximately 8.8 per cent of the total sales. By simply subtracting this percentage of time cost (8.8 per cent) from the percentage of the total cost of doing business (21.5 per cent) we quickly ascertain that the effort cost in this store

amounts approximately to 12.7 per cent of the total sales. (21.5 per cent minus 8.8 per cent equals 12.7 per cent.)

As indicated above, the best results are to be obtained only when an analysis of the store's own expense figures has been made to determine its own time-cost and effort-cost percentages specifically.

Nevertheless, preliminary percentages, thus obtained through the application of the two-per-cent-per-month basis for time cost, can well be used experimentally to test the principle and to develop a clearer understanding of its simple and effective operation.

This basis is applied in the following illustrations which show both how helpfully and how easily the time-cost and effort-cost percentages are put to practical use in any store or on any line of merchandise.

THE SIMPLE PROCESS IS ILLUSTRATED

Let us assume, now, that the mark-up on a given line of merchandise in the above mentioned store is 20 per cent of the selling price, 1.5 per cent less than the average cost of doing business for the store as a whole. Let us assume also that this line will turn six times a year; that is, remain in stock two months on the average, and that it is a clean-selling line which requires no provision for possible price reductions.

We want to determine whether that line will produce a profit or a loss, and how much. Be sure to remember that we are considering this particular line alone. The averages ordinarily applied to the store as a whole will therefore have no direct bearing on the case. We want to see what this line will do as a separate business, what its own profit-producing power may be.

Taking the time cost at 2 per cent per month and knowing that this line will remain in stock two months on the average, we readily determine that these goods will consume 4 per cent of the selling price for the time division of the cost of doing business.

Suppose, too, that careful consideration leads us to conclude that this particular line sells with unusual ease;

sufficiently so to require about 10 per cent less selling effort, proportionately, than does the entire stock of the store on the average. With the average effort cost for the store at 12.7 per cent, as previously determined, we then establish the effort cost on this line at 11.4 per cent of the selling price. (12.7 per cent minus 1.3 per cent equals 11.4 per cent.)

We now are equipped to get a good look at the profit-making possibility in this line. The simple calculation appears as follows:

Mark-up		20 per cent
Margin (the same)		20 per cent
Time cost	11 4 per cent	
Effort cost	11 4 per cent	
Total cost		15 4 per cent
Profit		4 6 per cent

Under the assumed conditions, then, this line will produce a profit—which means *net profit*—of 4.6 per cent; and in spite of the fact that the mark-up on the line is 1.5 per cent *less* than the *average* cost of doing business on the stock as a whole; that is, on the entire store.

Consider another line, now, on which the mark-up is 33.3 per cent, 11.6 per cent *higher* than the average per cent of cost of doing business for the entire store. Let us assume that this line turns only once a year; that is, remains in stock twelve months on the average.

Let us also assume that this line promises to involve mark-downs or price reductions amounting to about one per cent of the total sales, and that it calls for about the average amount of selling effort.

Under such conditions, the line would be figured this way:

Mark-up	33 3 per cent		
Price reductions	1 0 per cent		
Margin			32.3 per cent
Time cost (12 months at 2 per cent)		24 per cent	
Effort cost (average)		12 7 per cent	
Total cost			36 7 per cent
Loss			4 4 per cent

This particular line, then, largely because of the long time required to turn the stock, will produce a *loss* of 4.4 per cent in spite of the fact that it carries a mark-up which is 11.6 per cent *higher* than the *average* cost of doing business for the store as a whole.

By applying the same simple principle to any item or line, we find it remarkably easy to gage our profit by lines; to learn which are the profit-producers and which are the loss-producers in any store of any size or kind.

And with that information before us, we certainly can steer the business more steadily toward the goal of *maximum profit volume*.

GRAPHIC ANALYSIS OF MARK-UP

<table>
<tr><td colspan="4">Mark-up</td></tr>
<tr><td colspan="3">Margin</td><td>Price reductions</td></tr>
<tr><td colspan="2">Cost of doing business</td><td>Pro-fit</td><td></td></tr>
<tr><td>Time cost</td><td>Effort cost</td><td></td><td></td></tr>
<tr><td>Rent (market value, if store is owned)
Heat
Light
Insurance, Taxes — except on buildings
Interest (on total investment, both borrowed and owned)
Repairs
Depreciation of store equipment
Depreciation of merchandise (including stock shrinkages and stock shortages)
Wages, Supplies — incident to maintenance
Portion of management and buying expense (usually half)
Portion of office expense (usually half)
Other carrying costs</td><td>Advertising
Displaying
Personal selling
Depreciation of delivery equipment
Wages, Supplies, Postage — incident to selling and delivering
Credit losses
Portion of management and buying expense (usually half)
Portion of office expense (usually half)
Other selling costs</td><td></td><td></td></tr>
<tr><td>Determined by the length of time the goods remain in stock</td><td>Determined by effort required to sell the goods.</td><td></td><td></td></tr>
</table>

FORM 16 —This graphic analysis of the mark-up shows the cost of doing business divided into *time cost* and *effort cost* with a representative list of Expense accounts belonging under each division.

CHAPTER X

HOW FAST SHOULD THE MERCHANDISE MOVE?

From the standpoint of requiring close attention, stock turn is the most important single factor in merchandising. But it must be considered for individual lines, the producing units of the store. The rate of stock turn is important because it determines the average length of time the goods remain in stock, the key to gaging profit by lines.

The rate of stock turns can be increased (length of time the goods remain in stock decreased) either by reducing stocks without correspondingly reducing sales, or by increasing sales without correspondingly increasing stocks. Stocks can be reduced profitably only when they contain an excess over the requirement for a well-rounded program of profit producing. Best results demand that merchandise be moved in harmony with the other profit-producing factors.

Every store, like any other organism, is "an individual constituted to carry on activities by means of mutually dependent parts," as the dictionary expresses it.

We have previously discussed the mutually dependent parts of major importance in merchandising—sales, stocks, margins and expenses—the vital organs of the business.

It may prove both interesting and helpful to turn our thoughts briefly, at this time, to the possibility of there being some one most important single factor in merchandising.

Suppose, therefore, that each of a number of merchants has carefully selected what he believes to be the most important single factor, and has written down his answer together with his chief reason for making that particular selection.

We readily can imagine that a summary of all the responses might include such factors and reasons as these:

Factor	Reason for considering it most important
Selling	There can be no business without selling.
Advertising	People cannot buy unless they know about your goods.
Buying	There can be no selling without buying.
Displaying	People will not buy unless they are attracted by your merchandise.
Profit	No business can exist without profit.
Margin	There can be no profit without an adequate margin.
Stock turn	Everything depends upon the turnover of the stock.
Merchandise	The stock cannot turn unless the merchandise is right.
Expense	The intelligent application and control of expenditures determines the success of the business
Satisfied customers	No business can endure without them

All of these factors are essential, of course; and each of the stated reasons seems to be thoroughly founded. But when we consider the most important single factor from the viewpoint of its being the one that requires the most careful attention and the most constant watching, we probably will agree that it is the turn of the stock.

Probably everyone knows that turnover has been much abused in recent years, and that this abuse has resulted largely from agitation which sprang from overgrown enthusiasm that was born of insufficient understanding. Truly, "a little knowledge is a dangerous thing."

Those who agree that the turn of the stock—that is, the speed at which it moves—really stands as the most important single factor in merchandising, recognize it as the very *axis* of the business. They realize, however, that the stock turn must be supported by the essential element of adequate margin. They know that without adequate margin, fast turning of the stock can lead only to failure; and that the faster the turns the quicker will come the *finis*.

THE TURN OF PRODUCING UNITS

The average rate of stock turns for the store as a whole is, in a way, very much like the *main shaft* of a machine shop, or the electric current when individual motors are used.

This striking analogy becomes especially apparent when we consider that the main shaft or the current is of predominating importance, but that it accomplishes its purpose only when, through proper connection, it *turns the wheels that do the work.*

To obtain results from the main shaft or the current, the shop management must arrange for the delivery of consistent power and consistent speed at the right time to the right kind of producing machinery, to the right kind of *producing units.*

In terms of retailing we recognize the goods, of course, as the *producing machinery.* We know that the goods must be turned with consistent power and at a consistent rate of speed to produce the finished product of profit.

And that brings us again to the important consideration that the real profit-producing work of the store must be done by specific items or lines of merchandise; that the rate of stock turns for the store as a whole, like the main shaft of the machine shop, can be effective only through the *turn* of *producing units.*

We readily can see, therefore, why individual items or lines of merchandise—the separate producing units—require more careful attention and more constant watching than does the main shaft.

We know that when each producing unit is functioning properly—when each is turning out its *product* satisfactorily—the main shaft is bound to be doing its work as it should.

In taking stock turn as the most important single factor in merchandising, therefore, let us be sure to remember that we consider it as pertaining *primarily* to individual items or lines of merchandise; and as pertaining *secondarily* to the rate of stock turns for the store as a whole.

With that thought kept clearly in mind, our study of "how fast should the merchandise move" is sure to be much more helpful.

STOCK TURN IS A CONTROLLABLE FACTOR

An outstanding reason for emphasizing the importance of careful attention to the rate of stock turns for specific

items or lines of merchandise, as well as for the store as a whole, is based on the fact that this rate determines the *average length of time the goods remain in stock.*

And that information is particularly important because the average length of time the goods remain in stock determines the time division of the cost of doing business as it affects those goods.

Furthermore, the consistent rate of stock turns, as accomplished through a proper combination of carefully controlled buying and well directed selling, seems more completely within the power of every merchant to influence profitably than does any other factor of his business.

Think of the apparently increasing number of commodities on which both the purchase price and the selling price are largely or entirely beyond the power of the individual dealer to control.

Consider the generally recognized fact that the cost of doing business, when taken from the standpoint of *amount* rather than *percentage,* is controllable only to a limited though highly important extent; also that its more controllable percentage phase is based squarely on stock turns as they result in volume of sales.

Consider, too, the unavoidable external influence of increasingly severe competition, the general tendency of which always is toward *increased* costs and *decreased* margins, a condition which obviously pinches merchandising profit at both ends.

Now, to whatever extent the profit-pinching influences over which the individual retailer has little or no control continue their onslaughts, where else can the hope for survival and growth be found than in the increase of *profitable* stock turns?

The individual merchant has and always will have more direct and more complete control over *profitable* stock turns because they are accomplished through the proper combination of carefully controlled buying and well directed selling; through improving both the condition and the harmonious relationship of sales, stocks, margins and expenses.

The real essence of increasing *profitable* stock turns lies clearly in knowing the profit-making lines more definitely and more accurately; and then using that knowledge as a guide in placing effort and expense where they will do the most good in the production of *profit* volume, rather than *sales* volume.

On top of it all we must be sure to remember, however, that the detrimental influence of an unavoidably diminished *ratio* or *percentage* of profit on the *volume* of profit can be offset only through the process of *multiplication.* We never can get away from the fact that we may have sales volume without profit volume, but not profit volume without sales volume.

New York furnishes an impressive example with its many costly buildings which, though in excellent physical condition, are being scrapped and replaced with structures containing smaller rooms, *but more of them.*

The return from a single room may be much less, but the *aggregate* is increased sufficiently *through multiplication* to justify the tearing down of physically sound buildings and putting up others that are both physically and economically sound.

Exactly the same principle of *multiplying less to make more,* often holds good in merchandising. This multiplication results from constant striving toward the never-to-be-completely-reached goal of *maximum sales with minimum* stocks. It spells "stock turn;" and *more turns* with *less profit* may mean *more profit volume* than *less turns* with *more profit.*

A BRIEF STUDY OF "TURNOVER"

The terms stock turn and turnover are generally understood as having exactly the same meaning. We prefer the former term because it is more specific. We must base the present brief study, however, on turnover because that expression has been more commonly used. We find it more frequently discussed and defined.

Those who formulate definitions are supposed to tell "the truth, the whole truth and nothing but the truth." It often is interesting and helpful, therefore, to consider carefully several different definitions of the same term, remembering that all are aiming at the same *truth*.

The following three statements regarding turnover are taken from different books on retailing which happen just now to be at hand. Each of these statements seems to have been made with the intention of formulating a definition. Here they are:

1. "Turnover is the measure of the work each dollar in your business does for you."

2. "Each complete use of capital invested in merchandise is known as 'turnover.'"

3. "You turn your stock once when you sell all of it one time, regardless of the price you get for it."

And here is Webster's "New International Dictionary." It mentions turnover hinges, and turnover collars, and turnover pies, but says not a word about commercial turnover. This probably indicates that our commercial use of the term is decidedly modern and has not yet had sufficient time to settle down thoroughly.

Other dictionaries of later vintage define the word, but their statements seem to have come from men who have not been through the merchandising mill, so to speak. Here are three examples of their definitions of turnover:

1. "Amount of capital temporarily invested which the owner expects to get back before he begins counting profits."

2. "A complete commercial transaction or course of business; also, the money receipts of a business for a given period."

3. "The amount turned over or drawn in business, as in a retail shop, in a specific time."

Well, that's an interesting array of definitions, isn't it? If it shows any one thing conclusively, it is that the world is not yet in full agreement as to the real meaning of commercial turnover. It also shows how easy it is to get off

the track through mixing the ideas of stock turn and capital turn, thus confusing the issue quite seriously.

STOCK TURNS AND CAPITAL TURNS

The dictionaries, you see, seem to confine themselves largely to the idea of capital turn; exclusively so, in the above examples, unless we interpret "a complete commercial transaction" as meaning the buying and selling of a given piece or lot of merchandise without reference to price. That, of course, would be a stock turn.

The basic difference between stock turns and capital turns really needs to be recognized and clearly kept in mind. From the standpoint of merchandising, capital turns are of minor importance because they influence merchandising profit only to the extent that interest on investment is an element of cost.

We have a turn of capital whenever we get back a specific amount of money which has been paid out in the process of business. In the case of the stock turn, the operation is reversed. We have a turn of merchandise whenever we have disposed of what we received.

It obviously is the turn of the merchandise—the stock turn—that really counts in the production of merchandising profit, not capital turn. Besides, when the stock turns are *ample* and sufficiently *profitable*, capital turns will be sure to take care of themselves.

Capital turns need to be clearly understood, however, even though they are not calling for careful attention and constant watchfulness as an important element in the profit-producing process. We get a better conception of the real influence of stock turns when we clearly recognize the exact meaning and influence of capital turns.

One point to remember particularly in studying the difference between stock turns and capital turns, is that it is possible completely to turn the merchandise without completely turning the capital, and *vice versa.*

For example, when we sell one or more articles for less than they cost us—that is, for less than the merchandise

cost plus the cost of doing business as applied to that merchandise—we will have turned our stock without having turned our capital.

Again, when only a portion of a given number of articles has been sold for enough to bring back the capital invested in all, including both the merchandise cost and the cost of doing business as applied to that merchandise, we have a complete turn of capital without a complete turn of stock.

Every observing merchant clearly understands, of course, that a stock turn or a turnover of stock, simply involves buying some merchandise—any quantity, or quality, or kind—and then selling or in other ways disposing of all of it.

This necessarily means that getting rid of merchandise without getting paid for it, is included in the disposing; no matter in which of a variety of possible ways the thing is accomplished. And that is a highly important fact to remember.

The big point is that any merchandise has completed its turn when it has been received and gotten rid of; when it has come and gone. The *coming* is almost sure to be through *purchase* exclusively; the *going* is even more sure not to be through *selling* exclusively. In other words, the legitimate business is *sure to pay* for all that comes in; and practically sure *not to be paid* for all that goes out. There always are more *out* avenues than *in* avenues.

All phases of both stock turn and capital turn need to be taken into consideration in studying their difference; but the essential point of difference is based on the fact that capital earns *interest* on the basis of *extended* time, while merchandise produces *profit* (*or loss*) largely on the basis of *restricted* time.

We readily see, then, that the turn of capital has no direct relationship to either profit or loss; and that helps us to realize more fully *why* it is the turn of the merchandise—the stock turn—which we need to watch closely as our means of producing a *merchandising profit.*

A SIMPLE ILLUSTRATION

Let us consider a simple transaction clearly to illustrate both stock turns and capital turns, taking the stock turn first.

Suppose we have bought a horse for the purpose of selling him at a profit. The horse, then, will be our *merchandise*, our *stock*. We are confronted with at least four possibilities:

1. We may succeed in our intention of selling the horse at a profit.
2. Failing therein, we may sell the horse without a profit or even at a loss.
3. Failing to sell at any price, we may give the horse away.
4. Failing to find anyone willing to accept our purchased horse as a gift, we may pay to have the beast chloroformed and buried.

In the event of any of these possibilities, the result of the transaction will register a complete turn of the stock, meaning the merchandise, of course.

This simple illustration merely emphasizes the fact that, no matter *how* or at what price or at what cost we get rid of our purchase, our stock turn is complete when we succeed in disposing of all of it, and never until then.

Let us now take a quick look at some possible capital turns which our venture in horse merchandising might produce.

Suppose we have paid an even hundred dollars for the horse. What is required to complete a turn of our capital? Is it necessary to sell the horse for a hundred dollars or more? No, not at all. We need only to get our hundred dollars back.

Should that horse happen to win a hundred dollars for us in a race or at a horse show without incurring any expense, we clearly will have turned our capital as soon as we get the hundred.

If any expense is incurred, however, as is practically sure to be the case, we must get back both the original

investment and the amount of the expense before a complete capital turn is realized.

It is obvious, therefore, that the turnover of capital (capital turn) has no direct relationship to either profit or loss except in so far as the value of the use of the money—the interest on investment—is an element in our cost of doing business.

HOW STOCK TURNS INFLUENCE PROFIT

And now let us just remind ourselves again of the two chief reasons why our rate of stock turns requires particularly careful attention and constant watchfulness:

1. Because our rate of stock turns measures the *average length of time the goods remain in stock.*

2. Because the *average length of time our goods remain in stock* measures the time cost consumed on account of those goods.

Time cost, as we saw in the preceding chapter, is a factor in the cost of doing business which varies greatly and has a direct and highly important bearing on the profit (or the loss) to be realized on any item or line of merchandise. In fact, it is this element of variation that makes it so necessary to keep close watch of the rate of stock turns and its influence on time cost.

It all gets down to knowing how long is the time required to dispose of specific items or lines of merchandise, and the extent to which this length of time influences the cost of doing business as applied to that particular merchandise.

This information is important, of course, because the cost of doing business as applied to specific merchandise influences the profit to be realized from the handling of that merchandise. That is its only *practical use.* We may summarize the situation this way:

The Profit-making Advantage	
In knowing	Is in
The rate of stock turns.	Learning how long it takes to dispose of the goods.
How long it takes to dispose of the goods.	Learning how much it costs to sell them.
How much it costs to sell them.	Gaging the possible profit.

Knowing the time cost involved in the selling of any item or line enables us to determine the possible profit in that item or line with sufficient accuracy to serve as an effective guide in our efforts to realize the maximum profit our business is capable of producing.

That is why we need to know our rate of stock turns *by lines*, and why we cannot overemphasize the importance of our rate of stock turns when considered in terms of its true significance through its far-reaching influence on *profit*.

When we know how long it takes to sell a given item or line, we have the key to knowing how much it costs to sell it and how much *profit* it can produce.

STOCK TURN AS AN "AVERAGE"

We must be especially sure to remember, in connection with the above consideration, that the obtaining of absolutely accurate figures on the rate of stock turns requires altogether too much figuring to be generally applicable.

That is why we usually resort to an approximation, to a combination or average figure. Just as in other cases of necessity, we simply do the next best thing. Our average rate of stock turns, however, serves the practical purpose very well, providing the figuring is right and the resulting information is applied properly in our job of management.

The customary procedure, as is well known, is to divide the value of the average stock carried during the year into the total net sales for the year, both taken at either

cost or retail prices. That gives us, of course, the average number of stock turns for the year.

Being an average, this figure cannot be absolutely accurate from the standpoint of specific information as to the number of times the stock really has turned. What that figure tells us *exactly*, is the number of times that a quantity of merchandise has been disposed of which is equal *in value* to the value of the average stock carried.

That is somewhat different, of course, from knowing that *all of the stock* actually has been turned that number of times. The figuring is done in terms of *money value*, while absolutely accurate stock turn is concerned with the movement of merchandise *units*, not of their *value*.

Since it is impracticable, in most instances, to figure the rate of stock turns in terms of specific units of merchandise, especially as applied to the store as a whole, we simply use the convenient value basis and get the closest practicable approximation to what we really want and need to know; *how long it takes to move the merchandise.*

The more definitely we know how long the goods remain in stock, the more effectively can we apply the profit-estimating method that is based on time cost and effort cost; the better can we determine consistent stock limits; and the more helpfully can we make comparisons that will assist us in *reducing* the length of time the goods remain in stock, thus to *increase* their yield in *profit.*

THE PROCESS IS ILLUSTRATED

To illustrate the customary process of figuring the rate of stock turns, let us assume that the net sales for the year have amounted to $100,000 and that we have found the average inventory *at cost* (the cost value of the average stock carried during the year) to be $27,200.

Remembering that both of the figures used in the division which reveals the number of stock turns must be taken at either cost or retail values, we know that one of the above figures must be changed before the division is made.

When the average mark-up and the total of the mark-downs are known, as they always should be, the obvious and easy procedure is to reduce the sales to cost value.

Let us suppose, therefore, that the average mark-up is known to be 33 per cent of the retail prices as marked, and that the mark-downs or price reductions have amounted to $2,600. We then know that the sales would total $102,600 if all of the goods had been sold at the originally marked retail prices. This total will be reduced by 33 per cent, then, to obtain the cost value of the goods sold, $68,742.

By dividing the cost value of the average stock carried into the cost value of the goods sold, we find that the stock has turned, *on the average*, 2.5 times during the year. ($68,742 divided by $27,200 equals 2.5.)

Finally, by dividing the number of times the stock has turned into 12 (months), we learn that the merchandise has remained in stock, *on the average*, 4.8 months. (12 divided by 2.5 equals 4.8.)

Summarizing the illustration, we have:

Total net sales for the year	$100,000
Mark-downs (price reductions)	$ 2,600
Marked price of goods sold	$102,600
Mark-up (33 per cent on marked price)	$ 33,858
Cost value of goods sold	$ 68,742
Cost value of average stock carried .	$ 27,200
Number of stock turns (cost value of all goods sold divided by cost value of average stock carried)	2.5 turns
Average length of time goods remain in stock (12 months divided by number of stock turns)	4.8 months

Exactly the same procedure will be followed, of course, in ascertaining the number of stock turns in any department or line of merchandise; and in finding out how long the goods remain in stock, *on the average*, in any department or line.

HOW FAST SHOULD THE MERCHANDISE MOVE?

Now, to answer our title question more directly, we must be sure to bear in mind that there are but two ways through

which the merchandise can be made to turn faster. These are:

1. *Reduce the stock*, without correspondingly reducing sales.
2. *Increase the sales*, without correspondingly increasing the stock.

Those who get the best results necessarily apply both ways consistently, that is, *within* reason. They keep constantly before them that great *ideal* in merchandising, *maximum sales with minimum* stocks.

In this connection, minimum stocks means something quite different from what has come to be commonly known as hand-to-mouth buying; it means the minimum of investment on which consistent assortments of merchandise can be maintained, thus to accomplish the best possible selling at the lowest possible cost.

Merchandise stocks can be reduced profitably, only when they contain an excess over the normal requirement for a well-rounded program of profit production. They can be increased profitably when found to be below that requirement.

As between speeding the rate of stock turns—making the merchandise move faster—through *decreasing* the stock or *increasing* the sales, the latter is decidedly preferable providing, of course, the sales are made *at a profit.* Every additional sale then means a boost for the big objective, *maximum profit volume.*

However, the well-balanced stock is so fundamentally necessary in the development of *maximum profit volume*, that this phase of the situation always calls for *first* consideration.

"Make sure your car is in good working order, then start on your trip," says the motorist. Applied to profit-producing, this may be changed to read: "Make sure your stock is in good selling order, then pull for sales."

It finally resolves itself, of course, into establishing and maintaining a well-balanced relationship between the four basic elements in profit producing—sales, stocks, margins, and expenses—after making sure that each of these elements is in wholesome condition.

The big point is to work consciously and constantly toward the profit goal. The merchandise should move, therefore, in harmony with the other profit-producing factors—at a speed that will bring the best results in profit volume.

SPEED VERSUS RESULTS

Speed undoubtedly is a tremendously important factor in profitable merchandising, but it is not the only factor. Results are not determined exclusively by the number of times the wheels go round, but by what is accomplished through the going.

Likewise, profit volume depends not upon one factor or another, but upon each of the four basic elements in the profit-producing process, and how effectively they are working together in harmonious relationship.

That is why the rate of speed at which the stock should move depends so much upon the conditions existing in the individual store, and why the most profitable rate of stock turns for any one store is not to be determined by the showing of either average or common figures taken from other stores.

Of course it is helpful to know how fast the merchandise is moving in other stores of similar kind and size; but such information is to be used only as a basis for general comparison, never as a specific guide.

When we know definitely what our own store has accomplished in the past, and recognize the influencing conditions under which that accomplishment was realized; and then consider carefully its possible accomplishment for the future, in view of the probable conditions, we are sure to have the basis for making each line in the store turn at a rate of speed that will result in the greatest possible volume of profit.

This means that the comparison of the rate of stock turns that helps us most is the comparison of our own previous accomplishment, line by line and period by period. That comparison will aid us in constructing a well-planned program for the period ahead, and with such a program

we are in position to do better work in our striving for the complete ideal in merchandising—*maximum sales with minimum stocks and maximum margins with minimum costs* —which produces *maximum profit volume.*

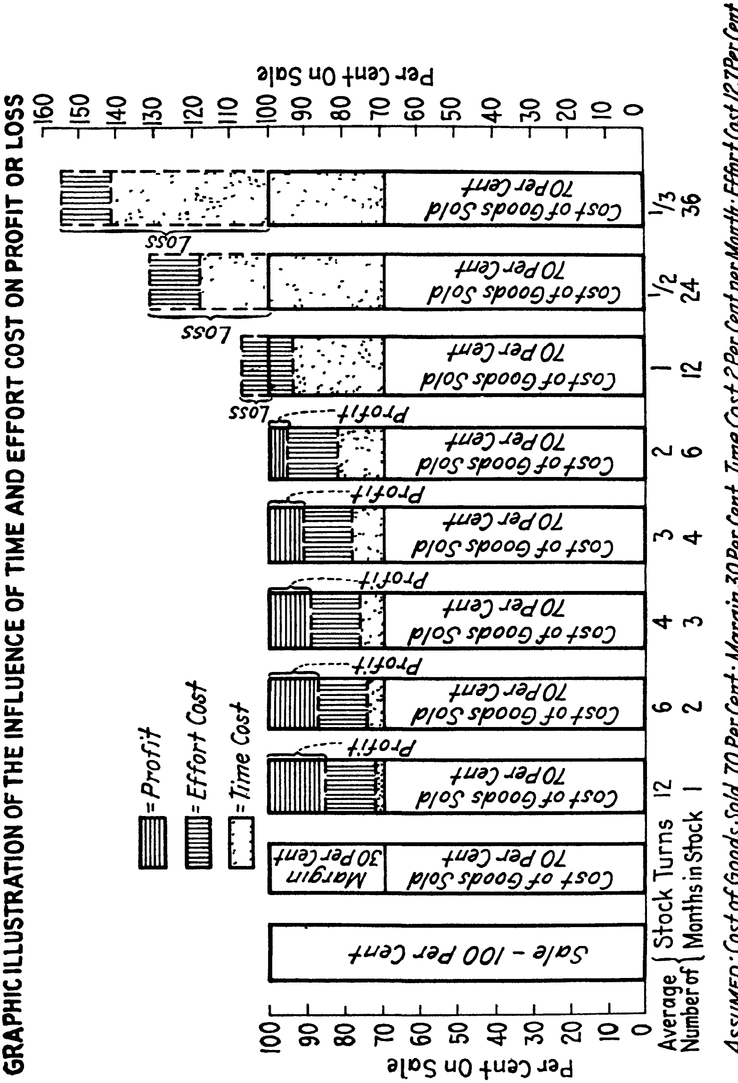
As a clear indication of the tremendous importance of speed in movement of merchandise, two illustrations are shown (pages 144 and 145). One shows the influence in figures, the other as a graph. Both show how time cost increases as the rate of stock turns decreases.

FIGURE ILLUSTRATION OF THE INFLUENCE OF TIME AND EFFORT COST ON PROFIT OR LOSS

Sale, percentage	Stock turns	Months in stock	Percentages						
			Cost of goods sold	Margin	Time cost	Effort cost	Total cost	Profit	Loss
100	12	1	70	30	2	12 7	14 7	15 3	
100	6	2	70	30	4	12 7	16 7	13 3	
100	4	3	70	30	6	12 7	18 7	11 3	
100	3	4	70	30	8	12 7	20 7	9 3	
100	2	6	70	30	12	12 7	24 7	5 3	
100	1	12	70	30	24	12 7	36 7		6 7
100	½	24	70	30	48	12 7	60 7		30 7
100	⅓	36	70	30	72	12 7	84 7		54 7

Assumed Cost of goods sold, 70 per cent, margin, 30 per cent; time cost, 2 per cent per month, effort cost, 12 7 per cent

FORM 17.


GRAPHIC ILLUSTRATION OF THE INFLUENCE OF TIME AND EFFORT COST ON PROFIT OR LOSS
= Profit
= Effort Cost
= Time Cost
Per Cent On Sale
Sale – 100 Per Cent
Cost of Goods Sold 70 Per Cent
Margin 30 Per Cent
Profit
Loss
Average Number of { Stock Turns 12 6 4 3 2 1 1/2 1/3
Average Number of { Months in Stock 1 2 3 4 6 12 24 36
ASSUMED: Cost of Goods Sold, 70 Per Cent; Margin, 30 Per Cent, Time Cost, 2 Per Cent per Month; Effort Cost, 12.7 Per Cent

FORM 18.

CHAPTER XI

A STUDY OF MARK-UP PERCENTAGES

No reason exists for mentioning mark-up or margin percentages as based on cost price. Many reasons exist for mentioning them only as based on selling price. Confused percentages have caused more injury to business than anything else that is anything like as easily prevented. Percentages need to be applied according to principle, rather than rule. It is helpful to know how mark-up tables are figured and why they are figured that way.

Mark-up percentages are more helpful in determining whether a given mark-up is adequate, than in determining what it should be. The right mark-up percentage for any individual store is not determined by what other stores are doing, but by what that store can do. The mark-up must yield a margin that leaves a profit.

The profit-making importance of mentioning mark-up and margin percentages only as based on the *selling* price, never on the *cost* price, has been given much attention within recent years; and rightly so.

A great deal of good has been accomplished in this way, but not enough. Were it merely a matter of our own clear understanding and correct application of the basic principles of percentage, most of us probably would have little or no cause to give the subject further consideration; but it is much more than that.

Indeed, this particular topic in merchandising is in some ways like the matter of carefulness in driving. Were our own clear-headed caution at the wheel all that were needed to keep us out of accidents on the highway, most of us would be enjoying more automobiling safety.

It's the other fellow's careless driving that brings the most hazards to the careful driver, you know. Likewise, it's the other fellow's misunderstanding and misapplication

of percentages that causes much of the unintelligent competition which brings some of the most annoying hazards in business.

For self-protection, if not for the benefit of others, those who may have no need for a better understanding of mark-up percentages will do well to recognize the commercial ills that spring from confused ideas and wrong practices on the part of others.

They will then do all they can to keep the educational campaign going until every man in business clearly understands the simple principles of percentage and applies them correctly. I firmly believe that will do more to help the cause of the individual retailer than can be done in any other way so easily available.

Because of this, my hope is that even those merchants who understand percentages thoroughly and always apply them correctly in their own stores, will find the following discussion both interesting and helpful.

Take this from long continued personal observation: There are more than plenty of retailers left who, in spite of all the publicity given to the proper use of mark-up percentages, still confuse them in a way that destroys much more profit, both for themselves and for their fellow merchants, than can be realized without thorough investigation.

YES, IT DOES MAKE A DIFFERENCE

One thing that quickly impresses the investigator in this field is the number of merchants with more than ordinary capacity who think mighty straight in terms of dollars and cents, but often go woefully wrong when they shift to the language of percentage.

In the simple matter of mentioning mark-up and margin percentages always as based on the *selling* price, never on the *cost* price, some of these men probably assume that it makes no difference because either way amounts to exactly the same in dollars and cents.

They seem to reason from the obvious fact that an article bought for $1.00 and sold for $1.50 has yielded a

margin of 50 cents regardless of whether it is referred to as 50 per cent of the *cost* price or 33⅓ per cent of the *selling* price.

They are right, of course, in assuming that it makes no difference; that is, in so far as the *sales already made* are concerned. A great difference becomes quickly apparent, however, when we consider the possible influence on the *sales to be made* and on the *profit* to be obtained therefrom.

One of the important points of difference rests on the fact that 50 per cent *sounds bigger* than 33⅓ per cent, though it may be exactly the same in amount. While it may seem, on first thought, that the mere *sound* of it can have but little influence on our profit, the fact is that it does.

Anyone who hears the larger percentage mentioned, is reasonably sure to form an exaggerated opinion of the merchant's opportunity for profit. The law of suggestion gets in its licks, and it works in exactly the same way on merchants, employes, and customers.

Exaggerated opinions of possible profit have caused many an unwarranted price-cut, as well as many a profit-destroying disturbance in the minds of employes and consumers.

All retailers will agree, of course, that if everybody knew how small the retailer's opportunity for profit really is, we would have at least a bit more of smooth sailing in business. We, therefore, are bound to help business by avoiding any practice that tends unduly to enlarge the vision of possible profit.

Besides, no benefit to anyone can ever come from using the larger percentage in mentioning either mark-up or margin; but a lot of damage may be done by that thoughtless practice. So there is *no* reason for it, and *much* reason against it.

The other big point is found in the deadly confusion of percentages which is generally recognized as the champion profit destroyer. Such confusion causes the faulty percentage comparisons which lead to many a profitless price, results in unintelligent competition, and brings detriment in huge chunks to every merchant.

When a rate or per cent of mark-up or margin based on the *cost* price is compared with the rate or per cent of expense (cost of doing business) based on the *selling* price, well, then, you know, the real tuberculosis of profit is getting in its vicious licks.

Yes, it does make a difference. In fact, it makes a *vast* difference. This little germ of confused percentages seems actually to have caused more misery and more failure in business than anything else that is anything like as easily prevented.

WE "FIGURE" ON ONE BASIS AND "SPEAK" ON ANOTHER

Of course this fatal practice of figuring the per cent of mark-up or margin on the *cost* price and comparing it with a per cent or cost of doing business that is figured on the *selling* price, has already been overcome to a notable extent. We are making headway.

But ample evidence is found to indicate that this important phase of percentages continues to deserve the careful attention of progressive business men, no matter how well they may understand it themselves.

Because the other fellow's pricing errors bring injury to every business, the campaign of education can have finished its job only when wrong percentage applications are completely eliminated; when *all* are on the *right track.*

One of the important points we need always to remember is that the best results are to be obtained only when everyone uses sound methods, and understands the reason why.

It is necessary to realize, for example, that while it is impossible to overestimate the importance of mentioning mark-up and margin percentages only as based on the *selling* price, it is not a question of right or wrong from the standpoint of arithmetic. The best results demand this.

We know, of course, that 50 per cent of $1.00 is 50 cents quite as surely as it is 33⅓ per cent of $1.50. The arithmetic of it is absolutely correct, therefore, either way. So the difference is merely a matter of advantage or disadvantage

from the standpoint of business management and influence on *profit*.

As a matter of fact, we necessarily figure mark-up on the *cost* price. The word "mark-up" itself indicates that we mark *up* something—add to it—increase it. And that "it" always is the *cost price*.

The mark-up may be *determined* in other ways, of course; that is, not figured. We might just conclude, for some reason or other, that a certain item which has cost us $1 should be marked to sell for $1.50, thus making the mark-up 50 cents.

But that mark-up was not figured. It was determined by simply establishing the price at which we should try to sell the item. If the *cost price* influenced our conclusion at all, it was in an indirect way. Our question was, "What can we sell it for?" not, "How much did it cost?"

Had we determined that mark-up through figuring we would have said, in effect, that this mark-up must be 33⅓ per cent of the *selling* price, so we must add 50 per cent of the cost price.

When we follow this figuring process, it is highly important to know just why it is necessary to add a certain per cent of the cost price to produce a mark-up of a given per cent on the retail price.

Doing anything without knowing the reason simply means that we are applying a *rule* rather than a *principle*, which is just the reverse of the practice upon which continued success is founded. "*Learn principles*," said Napoleon, "*all else is detail.*"

WHY WE NEED TO KNOW PRINCIPLES RATHER THAN RULES

Largely through the efforts of business men who recognize the far-reaching influence of the commercial problems used in our school arithmetics, recent years have brought many helpful improvements in our text books.

School children no longer work with problems that make it appear as if the difference between cost and selling prices were *profit* for the merchant. The examples now show that

every business has its overhead or cost of doing business, thus helping greatly in avoiding the exaggerated ideas of merchandising profit that cause great harm to business.

All such improvements are steps in the right direction. The most important step, however, is in the learning of *principles* rather than *rules;* and in learning to apply principles according to demands of existing conditions.

The reason for this is based on the fundamental fact that rules are applied through *memory,* while principles are applied through *reason.* A *rule,* therefore, can be applied more or less mechanically; but a *principle* can be applied effectively only when the reason why is understood.

Another big point is found in the fact that the successful application of *rules* is limited to conditions that fit the rule; while the successful application of *principles* is limited only by our ability to recognize conditions and to reason.

The far-reaching importance of this obvious truth becomes quickly apparent when we stop to consider that *conditions* are changing constantly and that *principles* endure forever.

When we know the simple principles of percentage, understand *why* they are principles and have formed the habit of applying them through the process of reasoning, not by memorized rule, the probability of percentage confusion is well out of the danger zone.

No one who thoroughly understands the *why* of the fundamental principle that the base and the percentage always must be of like kind, could ever go wrong by comparing the per cent of mark-up or margin based on *cost* price with the per cent of expense (cost of doing business) based on *selling* price.

So we readily see that knowing *how* to do anything can lead to the best results only when we also know *why* it is done. And that is why we need to know *principles* rather than *rules.*

KNOWING HOW MARK-UP TABLES ARE BUILT IS HELPFUL

One of the most helpful ways to get a good insight of percentage principles as applied to mark-up and margin is

to see just how the common variety of mark-up tables are built, and to understand why they are built that way.

But before we get into our study of the mark-up table, let us review the three most fundamentally important phases of the subject, and be sure to keep them clearly in mind. These are:

1. Mark-up can be figured only on the *cost* price.
2. Mark-up can be and frequently is determined or established without being figured.
3. In order to avoid misleading conceptions and profit-killing confusions, we must think and speak of the per cent of mark-up or margin only as based on the *selling* price.

With these points in mind, let us briefly consider the mark-up table. We know, of course, that its purpose is to answer such questions as pertain to the per cent of the *cost* price that must be added to produce a given per cent on the *selling* price. In a specific case, the question might be, for example:

What per cent of the cost price must be added to produce a mark-up of 40 *per cent on the selling price?*

We can turn to almost any mark-up table and find that 66⅔ per cent must be added to the *cost* price to produce a mark-up of 40 per cent on the *selling* price.

Such a table also will answer any similar question that involves a commonly used per cent of mark-up. It will tell us, for instance, that:

20 per cent on the cost price equals 16⅔ per cent on the selling price.

25 per cent on the cost price equals 20 per cent on the selling price.

33⅓ per cent on the cost price equals 25 per cent on the selling price.

50 per cent on the cost price equals 33⅓ per cent on the selling price.

100 per cent on the cost price equals 50 per cent on the selling price.

Should the table happen to go far enough it also would tell us that:

200 per cent on the cost price equals 66⅔ per cent on the selling price.

400 per cent on the cost price equals 80 per cent on the selling price.

9,900 per cent on the cost price equals 99 per cent on the selling price.

And then, should we happen to have occasion to increase the mark-up from 99 to 99½ per cent, we would find that the insignificant little ½ of 1 per cent will make it necessary to increase the per cent on the cost price by *just* 10,000, from 9,900 to 19,900 per cent.

The astounding progression may be continued indefinitely, but we never can add enough to the cost price (*unless the cost is nothing*) to produce a mark-up of 100 per cent on the selling price. That, of course, is simply because of the first basic principle in percentage which states that 100 per cent of anything is the *whole of it—all—no room for more.*

A careful examination of the principle on which all mark-up tables are based will make the reason for every percentage named in such tables equally apparent. This principle is illustrated in the following section on "how the problem is figured."

Obviously, the large percentages mentioned above go far beyond the realms of ordinary use. Nevertheless, a brief study of these extremes may prove decidedly helpful. It certainly will be well worth while if it:

1. Helps us to fix more clearly in mind the process through which mark-up tables are built.
2. Aids us in becoming able more easily, and quickly, and confidently to figure any desired mark-up percentage.
3. Gives us a better understanding of just *why* it is impossible to add enough to any cost price to make a mark-up of 100 per cent on the selling price.
4. Shows us *why* it is a profit-killing practice to speak of mark-up and margin percentages as based on the cost price.

HOW THE PROBLEM IS FIGURED

We are now ready to work through a specific case and see the *why* of every step in the process of figuring. Let us consider the previously stated problem:

What per cent of the cost price must be added to produce a mark-up of 40 *per cent on the selling price?*

We start, of course, with the base, that upon which the percentage is to be computed. This brings us to another *principle* in percentage, that the *base* is always a complete something and invariably represents 100 per cent.

Our problem really is in two parts. In the first part, we must find out what per cent of the selling price is represented by the cost price. So we work first from the selling price. We do not know the amount, but we know that it is the *base* in our problem and therefore is 100 per cent.

We know also that the mark-up is to be 40 per cent of the selling price, and that the cost price is the difference between the selling price and the mark-up.

Then, as the selling price equals 100 per cent and the mark-up equals 40 per cent, we know that the cost price equals 60 per cent (100 per cent minus 40 per cent equals 60 per cent). That is, the cost price in this case equals 60 per cent of the selling price.

Now, knowing that the cost price is 60 per cent and the mark-up 40 per cent of the selling price, we readily see that the *amount* of the mark-up must be in the same proportion to the *amount* of the cost price as *forty* is to *sixty.*

This brings us to the second part of our problem which, in this instance, might be stated: *What per cent of sixty is forty?*

We now work from the *base* of sixty; that is, sixty equals 100 per cent or the whole of the cost price.

Then, since sixty equals 100 per cent we know that *one* equals one-sixtieth of 100 per cent which is $1\frac{2}{3}$ per cent. Likewise, *forty* must equal forty times $1\frac{2}{3}$ per cent which is $66\frac{2}{3}$ per cent.

No matter what the amount may be, therefore, a mark-up of 40 per cent on the selling price always will represent $66\frac{2}{3}$ per cent of the cost price.

Proof is readily obtained by trying it out with any amount for the cost price. Suppose an article that cost $12 is to have a mark-up of 40 per cent on the selling price. We then have:

Cost price .	$12
Add 66⅔ per cent of $12	$ 8
Selling price	$20
Proof: 40 per cent of $20 equals	$ 8

Should we desire to formulate a simple rule by which to determine the per cent of the cost price that must be added to produce a given per cent of mark-up on the selling price, we would merely state what is done in the above two-part problem. Our *rule* might then read:

Deduct from 100 *per cent the required per cent of mark-up on the selling price and divide the difference into that required per cent.*

Applying the rule to the above problem, we would have: 100 *per cent less* 40 *per cent equals* 60 *per cent, and* 40 *divided by* 60 *equals* 66⅔ *per cent.*

HOW TO USE A MARK-UP TABLE

The extent to which a mark-up table should be used in marking goods is a matter that deserves careful consideration. As with every other instrument of convenience, we are confronted with the possibility of overdoing it.

This consideration takes us back to the question, what is the *right* selling price? If we accept the answer that it is all the traffic will bear, which necessarily includes the important element of customer satisfaction, we readily see that it is not a matter of a certain per cent to be added to the cost price.

Everyone realizes, of course, that the right selling price is as high as it can be made to bring the greatest profit in the long run. The first consideration, then, is: "What can we get for it?" not, "What did it cost?"

Now, "What can we get for it?" obviously is not to be answered on a percentage basis. The customer has no interest in percentages. She in interested in getting goods

that satisfy at the *lowest* possible price. We, as merchants, are interested in giving her goods that satisfy at the *highest* possible price.

In other words, our primary interest is in the *profit* resulting from the sale, while the customer's primary interest is in the *satisfaction* derived from the use of the goods.

Our interest, however, is identical with the customer's interest because we consider *profit* in terms of the long run which necessarily depends upon *customer satisfaction.*

No matter from what angle we approach the price question, the more we study it the more we realize that the practice of establishing our mark-ups or retail prices on a percentage basis is decidedly questionable, to say the least.

When study and experience have convinced us that certain goods are priced to the best advantage with a mark-up of a given per cent, we can use a mark-up table which shows the price at which the goods at a given cost must sell to produce the desired margin.

The danger lies in getting the habit. We may think so much in terms of marking-up on a percentage basis that we are apt to lose sight of golden opportunities for *profit.*

That is why more and more merchants are getting away from the practice of marking goods on a percentage basis. In place of that, they mark their goods on the basis of what they think they can get their customers to pay willingly and with lasting satisfaction.

They realize, of course, that there is a difference—and a very important one—between what the customer *is* willing to pay and what she *may be made* willing to pay. They realize, too, that the *bridging* of that difference is the job of salesmanship.

Above all, perhaps, they recognize and appreciate the value to the merchant of this memorable statement by E. C. Simmons: "*The recollection of quality remains long after the price is forgotten.*"

But these men also make mighty good use of mark-up percentages. Indeed they do. They use them to determine whether or not they can handle the goods at a profit, and to learn the extent of the possible profit.

They simply think *first* in terms of the selling price—"What can we get for it?"—and *second* about the mark-up. They realize that it is *margin*, not *mark-up*, that really counts; and they know that a mark-up never becomes a margin until the goods are sold.

Their procedure is decidedly different, of course, from that of the sales-enthusiast who thinks of *sales* volume to the neglect of the more important *profit* volume. In fact, the practice of setting the retail price *first* and then seeing what the mark-up *is*, soon brings recognitions and understandings that go a long way toward *reaching the profit goal.*

AVERAGES AND SPECIFIC CASES

One other big point remains to be considered in connection with our study of mark-up percentages. It is closely related to a similar point brought out in our discussion of the expense budget and the cost of doing business, and is based on the obvious fact that *averages do not apply to specific cases.*

While it is helpful, of course, to know either the average or the common mark-up percentage in stores that operate under conditions similar to our own, it certainly is dangerous to use them for anything more than a basis for general comparison.

What other stores of similar kind and size are doing is a good *general indication*, but it gives no *assurance* that our own store should be doing likewise. Individuality is and always will be one of the most important assets of the individually owned and operated store. And *individuality* is reflected in figures as well as in other phases of the business.

The right mark-up percentage for any individually owned and operated store is not to be determined, therefore, by

what other stores *have done and are doing,* but by what the store itself *has done and can do.*

Whether or not the mark-up in any individual store is *right,* necessarily depends upon its own sales, its own merchandise stock, its own margin (realized mark-up) and its own cost of doing business. In other words, it depends upon the store's own *profit.*

Obviously, then, our real guide to increased profit must come primarily from a comparison and study of the figures that apply to our own store. Comparison and study of the figures from other stores can help us only in gaining greater guidance from the comparison and study of our own figures.

On the same general principle, the average mark-up for our store as a whole never can be used as a safe indication of what the mark-up should be in any of our departments or lines. *Averages do not apply to specific cases.*

That is why the proper application of the elements of time cost and effort cost (discussed in Chap. IX) become increasingly important in the producing of retail profit.

GRAPHIC ILLUSTRATION SHOWING THE RELATIONSHIP BETWEEN MARK-UP PERCENTAGES, BASED ON COST AND SELLING PRICES

		Per cent
$$$$. . .	(Cost price. .	20)
$$$$$$$$$$$$$$$$	(Mark-up	80)
$$$$$$$$$$$$$$$$$$$$	(Retail price	100)

It takes 400 per cent of the top row to make 80 per cent of the bottom row.

		Per cent
$$$$$$$$$$$$$$$$	(Cost price. . . .	80)
$$$$	(Mark-up .	20)
$$$$$$$$$$$$$$$$$$$$	(Retail price.	100)

It takes 25 per cent of the top row to make 20 per cent of the bottom row.

		Per cent
$$$$$$	(Cost price..	30)
$$$$$$$$$$$$$$	(Mark-up	70)
$$$$$$$$$$$$$$$$$$$$	(Retail price	100)

It takes 233⅓ per cent of the top row to make 70 per cent of the bottom row

		Per cent
$$$$$$$$$$$$$$.	(Cost price.	70)
$$$$$$	(Mark-up.	30)
$$$$$$$$$$$$$$$$$$$$	(Retail price.	100)

It takes 42.85 per cent of the top row to make 30 per cent of the bottom row

		Per cent
$$$$$$$$	(Cost price. .	40)
$$$$$$$$$$$$	(Mark up. ..	60)
$$$$$$$$$$$$$$$$$$$$	(Retail price.	100)

It takes 150 per cent of the top row to make 60 per cent of the bottom row.

		Per cent
$$$$$$$$$$$$	(Cost price.	60)
$$$$$$$$	(Mark-up. ..	40)
$$$$$$$$$$$$$$$$$$$$	(Retail price.	100)

It takes 66⅔ per cent of the top row to make 40 per cent of the bottom row.

		Per cent
$$$$$$$$$$.	(Cost price.	50)
. $$$$$$$$$$	(Mark-up.. ...	50)
$$$$$$$$$$$$$$$$$$$$	(Retail price.	100)

It takes 100 per cent of the top row to make 50 per cent of the bottom row.

FORM 19.

CHAPTER XII

CAN THE INVENTORY BE MADE MORE HELPFUL?

The modern inventory is taken to find out whether the stock is as it should be, rather than to find out what it is. It provides a means for proving accuracy. Most of the helpfulness to be derived from an inventory, comes as a by-product. Recognizing these elements of helpfulness leads to more frequent inventory based on more minute merchandise divisions.

With a simple mark-up record properly applied, a complete monthly statement of the business may be had in any retail store (large or small) without taking inventory. Merchandise is then counted only when specific proof of accuracy or other advantages may be desired. The proof can be applied at any time and to any number of merchandise divisions Complete inventory at stated periods can be eliminated entirely.

Quite remarkable, come to think of it, how relatively few are the years that have passed since we began asking ourselves such questions as, can the inventory be made more helpful?

This fact becomes especially impressive when we consider how very long that ancient perennial of business known as the annual inventory was applied with apparently no thought of either the need or the possibility of improvement. Perhaps necessity had not developed sufficiently to mother invention along this line.

How different the situation of today! Regardless of whether it was Mother Necessity or Dame Opportunity that prompted us, we certainly got started in the making of improvements and we have registered tremendously rapid progress.

As a result, the inventory practices in many stores are now as far ahead of the time-honored annual inventory as

our next-year's models are ahead of the cars that once frightened trusty Dobbins on our highways.

With the continuation of equally marked improvement, we may reach a point that will bring the comparison more nearly to that of the *airplane* with the *prairie schooner*. At any rate, it always is well to hitch our wagon to a star, providing we keep our feet securely planted.

WHY TAKE INVENTORY?

To determine whether or not the inventory can be made more helpful, we must give some consideration to our reason or reasons for doing the thing. So we may well ask ourselves, first of all, why do we take an inventory?

This may at first impress us as a somewhat ridiculous question, yet the chances are more than even that a few moments spent in thinking seriously about this simple question will open the way to some measure of betterment in almost any store.

The probability is, therefore, that the more analytically each considers this question for himself before reading the following discussion, the better will be the results. In fact, I firmly believe it will pay anyone to put his own answer in writing, and to state it as definitely and completely as the time available for the consideration will permit.

It also will pay to retain the written answer for reference and comparison with other answers that may and probably will be prepared in the future. In this way, the undertaking assumes at least some of the characteristics of a game, and thus becomes increasingly interesting and helpful.

No matter what the answer may be, however, we are sure to find that the basic reason amounts to one or the other of the following:

1. To find out what we have.
2. To find out whether what we have is as it should be.

All other reasons are in the nature of *by-products* which largely determine the helpfulness of the inventory. In other words, the real helpfulness of any inventory is meas-

ured primarily by the practicability and extent of its by-products.

But there also is a vast difference in helpfulness between the first and second of the basic reasons. Those who adhere to the first are handicapped through the lack of current information, and the lack of dependable proof of accuracy when their information is revealed.

The second basic reason has come about largely through the advent of the simple mark-up record which is used in connection with what is known as the "retail inventory method." When applied to the best advantage, this record serves as a satisfactory means for obtaining current or up-to-date information, as well as an excellent proof of accuracy.

These are two factors of tremendous worth and helpfulness:

1. Because the help to be derived from any record depends upon the *usefulness* of the information it reveals.

2. Because figure-information without proof of accuracy may be harmful rather than helpful.

SOME BY-PRODUCT REASONS

Regardless of whether we adhere to one or the other of the two basic reasons, we are sure to find a number of good reasons that serve to make our inventory work more productive, more *useful* and more *profitable.*

Those who still follow the ancient method of depending on the inventory for a financial statement of the business, as well as those who use the modern method, can obtain such features of helpfulness as these:

1. Ascertaining how much the business has gained or lost in a given time period.

2. Comparing the value of present stock with that of previous dates.

3. Studying the stock thoroughly to locate the slow movers that require special attention.

4. Assisting the sales people in becoming better acquainted with their stock.

5. Establishing a basis for settlement in case of a fire loss.
6. Meeting the demands of the banker.
7. Obtaining the basis for an income tax report.
8. Securing information which serves as a guide to right buying.
9. Developing information to guide in planning for a more profitable future.

Should those who adhere to the first basic reason happen to inventory at both cost and retail prices, they will be able to add an element of particular helpfulness which the modern practice provides currently and therefore more effectively:

10. Learning the percentage of mark-up carried by the stock as a whole, as well as by any number of merchandise divisions according to which the inventory may be separated.

Those who follow the modern practice of using the inventory to check the accuracy of recorded information and who also take the inventory at both cost and retail prices, can add two more by-product reasons to the list:

11. Proving the accuracy of the mark-up percentages revealed by the mark-up record.
12. Ascertaining both the cost value and the retail value of the stock as a whole, as well as for any number of merchandise divisions according to which the inventory is separated.

Obviously, the various elements of helpfulness that may be obtained as by-products of the necessary inventory are sufficient in scope to justify their careful consideration in the light of the conditions that confront the individual store.

Such consideration is necessary, of course, because no store can obtain the best results without adapting its records to its own peculiar conditions and needs.

IS THE INVENTORY ADEQUATE?

After answering the question "Why take inventory?" to our own satisfaction, we are ready to ask ourselves whether

or to what extent our present inventory practice measures up to our needs and ideals; whether it is as satisfactory or adequate as it should be.

This question brings us to an important basic principle which proves a real help in sizing up any record to determine whether or not it really is *adequate*. Basic principles apply alike, of course, to every store. It is only the detail of application that necessarily varies according to the conditions existing in the individual business.

The basic principle to which we refer points out that every adequate record must be (1) *complete*, (2) *sufficiently informative*, and (3) *dependably accurate*. Stating these three essentials a bit more fully, and as applied directly to the inventory, they may read:

1. To have a properly arranged list of every item of merchandise in stock.

2. To develop, through the use of the record, every element of inventory information needed in the most profitable administration of the business.

3. To have a dependable proof of accuracy.

The first of these essentials requires but little consideration. In fact, it really is covered almost entirely by the second and third essentials because we can obtain adequate information and dependable proof of accuracy only when the inventory is complete. The listing feature alone remains as a separate essential.

The second and third essentials are the ones that call for special thought and careful consideration. Whether or not our inventory can be made more helpful rests squarely upon whether or not it can be made to develop more helpful information; and the helpfulness of the information depends upon its being both *useful* and *accurate*.

On the whole, the three essentials render excellent service as a basis for determining the adequacy of the inventory. They guide us in a critical examination to determine whether our own inventory is *complete, sufficiently informative, and dependably accurate.*

MORE INFORMATION

The big central point is, of course, to determine whether the inventory is sufficiently informative to produce the best possible results; a job which calls for the keenest of judgment.

An encouraging phase of the situation is found in the fact that judgment invariably develops as information increases. This is true because the more we know about a given subject, the better are we able to judge it.

That, of course, is exactly why improvements so often progress rapidly after they get a good start. One improvement often leads to another because the directing judgment becomes better; because there is a better standard upon which to base judgment.

Just as surely as science springs from classified knowledge, so does judgment spring from classified knowledge which, after all, is nothing more than classified experience. Therefore, the more classified knowledge or classified experience we have, the better is our judgment. Judgment always is a growing institution with those who have developed the habit of thinking analytically.

Yes, all this pertains to our title question: "Can the inventory be made more helpful?" It leads us straight to the fundamental point that *more information* is the basis of greater helpfulness to be derived from the inventory, and it emphasizes the need for judgment in determining what information can be used to the best advantage.

The next big point is, of course, to determine *how* the information can be used to the best advantage; how it can be made most helpful. So the situation resolves itself into two fundamental questions which may be stated as:

1. What information can be used most helpfully in producing maximum sales with minimum stocks?

2. How can we use that information to the best advantage?

No attempt can be made in this brief discussion to cover all possible points of greater inventory helpfulness, nor is that necessary. The chief benefit must come, in

fact, from each sizing up the situation for himself and deciding whether, and in what way, and to what extent, his own inventory can be made more helpful.

THE MARK-UP RECORD AS A BASIS

One big point to remember is that much of the helpfulness of the inventory must come from its use in connection with information developed through other records.

Another big point for consideration was mentioned in Chap. IX; that no element in merchandising guides more surely to *profit volume* than does ability to *gage profit by lines*.

Therefore, to whatever extent we can make our inventory assist us in knowing our profit by lines more definitely and more accurately, we certainly will be increasing its helpfulness. As a basis for this, a suitable mark-up record is essential.

A suggested form for such a record is illustrated on page 175. It includes the elements of time cost and effort cost which are presented and discussed in Chap. IX on "Gaging Profit by Lines." For this reason, a careful review of that chapter will be well worth while in connection with the present consideration.

The prime purpose of the mark-up record is to reveal the average mark-up percentage which must be known for any merchandise division on which the profit is to be gaged. When we gage our profit by lines we must, therefore, know our mark-up percentage by lines.

Now, the encouraging thing about the mark-up record is that it is quite as easy to record a given invoice on one sheet as another. Obviously, then, we can handle our mark-up record easily in just as many divisions or sections as may be required to gage profit on specific lines of merchandise.

The chief requirement lies in properly classifying the merchandise and making sure that every item can be assigned readily in accordance with the established classification. The items included in a specific division should

be as nearly alike as possible in the two great profit-determining factors, stock turn and margin.

Previously established departmental divisions usually can remain just as they are, so all the benefits of such divisions will be retained. The plan simply calls for going a step farther and getting not only more information, but more *specific* information which is the guiding star to greater helpfulness.

This simply means that when a mark-up record already is in use and is divided according to departments, the only need is to establish departmental subdivisions and thus obtain a closer analysis of the merchandise handled in each department.

The maintenance of the record will be as simple as before, providing only that each item of merchandise can be identified readily as belonging in a given subdivision or line. Obviously, the total of the subdivisions in each department will reveal exactly the same departmental information previously obtained.

TIME AS A BASIC FACTOR

After knowing the mark-up percentage by lines, we must ascertain the cost-of-doing-business percentage for each of those lines. With these two items of information at hand, we are in position to gage our profit *by lines*. The simple process involved is described and illustrated in Chap. IX.

Once having analyzed our cost of doing business into time cost and effort cost, we need only to know the average length of time required to turn each line of merchandise. In other words, we need to know our average rate of stock turns for each line.

Determining the average rate of stock turns by lines obviously involves exactly the same procedure as is followed in determining the average rate of stock turns for the store as a whole. We simply divide the total of the *net* or *actual* sales by the value of the average stock carried,

the *average inventory.* This can be done as readily, of course, for a small division of the stock as for the entire stock.

What we really need to know is the average length of time that a given line of merchandise remains in the store. Of course the time will vary more or less, and the cost of doing business as applied to that line will vary accordingly. This clearly indicates the need for careful watchfulness to guard against any undue staying time.

Furthermore, since the staying time for each line is estimated in planning and buying, taking inventory by lines to establish the average rate of stock turns for each will serve as a check-up or proof on the estimate. This is just one phase of the *proof of accuracy* which stands as the basic mission of every modern inventory for the store as a whole.

The form for a mark-up record illustrated on page 175 includes several elements which may be helpful, but are not essential. It is not absolutely necessary to figure the mark-up on each invoice, nor to extend the estimated percentages of time cost, effort cost and profit.

In fact, the only *essential* phase of the record is to show the mark-up in each line or merchandise division, and that is accomplished by extending each invoice at both cost and retail prices. The other elements of information are included by way of *good measure.* They are easily recorded and may prove decidedly helpful by showing variations which might be of considerable guiding value.

Including the additional information, particularly the estimated months in stock, proves especially helpful in reminding us constantly of the powerful influence that the length of time the goods remain in stock has upon the cost of selling those goods.

It helps us, therefore, in buying always on the basis of a carefully determined time-period; and in remembering that when any merchandise remains in the store longer than the time scheduled for it, the *cost* increases and the *profit* decreases. Time really is a *basic* factor.

RETURNED GOODS AND MARK-DOWNS

Mark-up records sometimes are ruled with separate columns for recording any merchandise that may be returned to the purchasee after the invoice has been entered, and any mark-downs or price reductions that may be made.

It obviously is necessary to maintain a complete record of these matters. A return of goods to the concern from which they were bought simply means that our purchases are reduced accordingly. So far as amount in dollars and cents is concerned, the same effect is produced when the purchasee makes an allowance on the price after the invoice has been approved and entered.

Mark-downs or price reductions simply lower the retail value of the merchandise. These also must be recorded accurately and completely. Otherwise, the mark-up record cannot reveal the required information as to the existing or maintained mark-up.

For several reasons, the suggested form of a suitable mark-up record does not include columns for these necessary elements. In the first place, they do not occur with sufficient frequency in all stores to justify the separate columns and, in the second place, the information usually can be recorded more effectively without them.

One good way is to use separate sheets of the mark-up record for each merchandise division, one to record returns and allowances and the other to record mark-downs exclusively. This is particularly advisable when any or all of these influences occur frequently. Indeed, in some stores it may be well worth while to provide a specially ruled form for the purpose.

When the occasions for such entries are infrequent, it proves quite satisfactory to record them on the regular mark-up record either in different color or encircled, thus to indicate that their totals are to be deducted from the regular totals. What we want the record to show primarily, is the total of the *net* purchases (at the prices we actually pay) and their *retail value* as now priced. It

also is important and helpful to know the total of the price reductions or mark-downs.

GAGING SALES BY LINES

Now, with the maintained mark-up *by lines* revealed through the subdivided mark-up record, and with the cost of doing business *by lines* ascertained through the simple calculation of time cost and effort cost; we need only to know sales *by lines* in order to figure profit *by lines.*

The job of finding out how much has been sold in each line may at first impress us as being discouragingly enormous and requiring a detailed analysis or classification of all sales which obviously is a tremendous undertaking.

Again, however, our simple mark-up record comes to the rescue and provides the basis for a dependable short-cut method through which we can gage sales *by lines* with remarkable ease and practical accuracy. The divided or classified inventory—that is, classified according to the same merchandise divisions as is the mark-up record—completes the simple requirement.

The mark-up record must be started, of course, with an entry of the goods on hand in each division at the beginning of the time period under consideration. The merchandise thereafter received into each division is added to the record when the goods are accepted and the invoice approved, regardless of when the payment is to be made. Each entry is extended at both retail and cost values, thus revealing the amount of the mark-up.

Our mark-up record thus tells us both the cost and retail value of all the merchandise handled in each division since the beginning of the period; and the difference between the *retail* and *cost* totals shows the total mark-up carried by each division or line. By simply dividing this *total mark-up* by the *total retail value* of all the goods handled in the line, we quickly obtain its *average per cent of mark-up.*

Now let us see how easy it is to gage sales *by lines* through the use of the mark-up record. We accomplish this by simply taking an inventory of the goods remaining

in stock in any division or line for which we desire to ascertain the total of *sales,* then deducting the *total value of the goods remaining in stock* from the *total value of the goods handled.*

Objection may be raised on the score that this simple procedure reveals the value of the goods *disposed of* rather than the exact value of the goods *sold.* That is, the value of any goods disposed of through other means than *sales* will be included in this *total.* The point is well taken. In fact, that is why we call it *gaging.*

This *short-cut* procedure clearly applies the *counting* method, rather than the *accounting* method. It provides an effective *guide,* nevertheless, because ample checks or proofs of accuracy are established through the working of the profit-making program as a whole.

We obtain a check against the unrecognized disappearance of merchandise through the *stock-control* methods discussed in Chaps. III, IV, V, and VI, as well as a general proof of accuracy when the gaged sales *by lines* is compared with the total sales for the store as a whole.

Besides, we must remember that the chief purpose of gaging sales *by lines* is to gage profit *by lines.* The short-cut method has the advantage of being simple and easy to apply and, at the same time, being sufficiently informative and accurate to serve as a practical guide in knowing where profit is and where it is not.

It also presents the enormous advantage of unlimited flexibility; that is, any desired number of lines or merchandise divisions can be handled and controlled with no restriction other than the limit of practicability or profitability.

This feature is especially important because, up to the limit of practicability, the greater the number of divisions the more specific will be the information and the greater will be its helpfulness. This is obviously true because the more definitely we know where profit is and where it is not, the more effectively can we direct the activities of the business toward the goal of *maximum profit volume.*

THE SUBDIVIDED INVENTORY

On the whole, the possibility of making the inventory more helpful centers itself in the development of more specific information and more positive proof of accuracy. Both of these features are helped along effectively through the use of the subdivided inventory, through more complete analysis.

After the divisions are once established, it obviously is quite as simple to inventory each line separately as to take the entire stock without thought of divisions. In fact, it sometimes becomes decidedly easier in the long run because the work can be handled in sections.

When the complete stock control plan is well established, the inventory for the store as a whole provides the element of *proof* which is embodied in the second of the above mentioned *basic reasons* for taking inventory, to find out whether what we have is as it should be.

To do this, we must know the total of the sales through some form of direct record, cash register totals, recapitulation of sales tickets, or any other method that establishes the total of the sales from the sales themselves.

The principle involved is exceedingly simple, being nothing more than the obvious fact that the total retail value of the *merchandise handled* minus the total of the *sales* equals the total retail value of the *merchandise that should be in stock.*

Therefore, the inventory *at retail value* will prove whether or not what we have is as it should be. The principle is exactly the same as the one applied practically every day by practically every store in *balancing the cash.*

When the store analyzes its sales *directly* into any given number of departments or merchandise divisions, each of these can be *controlled* or *proved* separately. In that case, the inventory which serves in making the *proof* can be taken for any division at any desired time, either when most convenient or when the need for a *check-up* exists.

Furthermore, when this phase of the subdivided inventory is in use, the complete inventory for the store as a

whole at any *one time* can well be eliminated entirely. The book inventory will serve in making a complete *financial* or *condition* statement each month or whenever desired. A complete physical inventory *at one time* will then be needed only *when* and *if* a proof *at one time* is deemed necessary for the store as a whole.

Those who prefer to apply this simple principle on the basis of *cost value* rather than *retail value*, will merely reduce the retail figure according to the per cent of the average mark-up to determine its cost value.

STOCK SHORTAGES

For various reasons it is not to be expected that merchandise can be *balanced* with the same degree of accuracy that cash can be *balanced*. The aim, therefore, is to obtain a *dependable* proof rather than an *absolute* proof.

Any difference between the *book inventory* and the *physical inventory* may be the result of very much the same sort of causes that occasionally throw the cash *out of balance*. In the one instance we are dealing with *cash*, in the other with *merchandise*, simply a matter of the *value* being in a different form.

It may not be absolutely true to say that merchandise *is* money, but it certainly is absolutely true to say that merchandise *represents* money. In fact, merchandise that cannot be converted into money is just as bad as counterfeit money that cannot be converted into merchandise; much worse, indeed, because it consumes so much more time cost, room rent.

If anything, it is even more necessary to balance the merchandise than to balance the cash, because money converted into merchandise usually is subject to more *loss-dangers* than merchandise converted into money. Truly, the problem of *stock shortages* stands as one of particular importance in many a retail store.

That is why it is so necessary to have a *book inventory* of some kind, and to use the *physical inventory* as a means of proving accuracy. To any extent that a merchant

operates his store without such a *proof*, he again is batting in the dark. Many actual occurrences have proved conclusively that it is surprisingly easy to wreck an otherwise healthy business through the unrecognized disappearance of merchandise.

Every merchant will determine for himself what may be accepted as a *normal* or *non-preventable* ratio of stock shortages in his own store or in any division for which sales may be analyzed directly, thereby establishing a *basis for proof*. This difference needs to be included as an element in the cost of doing business just as surely as any other form of *depreciation*.

Be sure to remember that stock control, as discussed in Chaps. III, IV, V, and VI, is based on *merchandise units;* while the inventory proof is based on *money value*. Both are helpful in *determining the cause* of any existing shortage in the stock, as well as in the even more important job of *preventing* stock shortages.

It may be well to add, in this connection, that all stock shortages are the result of either *intentional* or *unintentional* error. When the possibility of undiscovered *unintentional error* is amply guarded and checked against, the undiscovered *intentional error* (crookedness) is thereby automatically guarded and checked against.

Mark-up Record

Approved Invoices for(Dep't.or Line) --

Date of entry 19...	Invoice record		Invoice extensions				Estimated months in stock	Estimated percentages			
	Bought from	Date of invoice	Retail value	Cost value	Mark-up			Time cost	Effort cost	Total cost	Profit
					Am't	Per cent					

FORM 20.—Points on the operation of the mark-up record.

All deductions from any invoice, excepting cash discount, should be recorded on the invoice whenever possible before the invoice is entered on the mark-up record.

Subsequent deductions may be entered on the mark-up record in different color or encircled, or a separate sheet may be used for each department or line to record such deductions. Mark-downs or price reductions can be handled in the same way.

Payments need not be entered on the mark-up record, nor is it usually necessary to maintain a purchase ledger. All unpaid invoices can be kept together and complete control obtained through the Accounts Payable account in the general ledger.

A memorandum invoice should be made for any purchase on which no regular invoice is received.

CHAPTER XIII

WHAT SHOULD THE BOOKKEEPING SYSTEM ACCOMPLISH?

The prime purpose of the bookkeeping system is to reveal helpful information for the manager. What the bookkeeping system should accomplish depends upon what information can and will be used to aid and guide the manager. While the service of a competent specialist is helpful, the manager himself must be the final judge.

Every adequate bookkeeping system covers three basic essentials:

1. Records all commercial transactions and influences.
2. Develops, from the records, the figure-information needed in the successful management and control of the business
3. Obtains a dependable proof of accuracy.

Only two basic records are used The function of each must be understood.

Of course every manager gives some thought to what his managerial job really involves. Some give *more* thought to it; some give *less.* Some think about it *deliberately;* some think about it only *incidentally.*

Job analysis is something we all practice to a greater or lesser extent. Deliberate job analysis has proved itself so generally and so genuinely helpful that everyone who carefully studies its possibilities is practically sure to appreciate its value. Many will thereby be prompted to give it more serious attention.

One point well worthy of special consideration is that the most permanently helpful *job analysis* appears quite clearly to be that which each makes for himself—of *his own* job—whether employer or employe.

The art of analyzing jobs is yet in its infancy, of course; and that may be at least one of the reasons why *managers,*

as a class, seem to have made greater progress in analyzing the job of each employe than in carefully outlining their own specific duties.

But our discussion is not on job analysis. Our present interest in this admittedly important subject is merely to center our thinking more definitely upon one particular fact which is considered of outstanding importance to *managers.* It is this:

The more deliberately and carefully we study and analyze our managerial duties, the more clearly we see how one specific function runs through the entire program, like a silver cord through a string of beads. That function is, of course, to make decisions, to pass judgment.

The manager, for example, does not construct the building that houses his enterprise; but he invariably must *judge* its fitness and adequacy.

He usually does not do all of his own buying, and displaying, and advertising, and selling, and delivering, and accounting, and collecting; but he always *judges* the efficiency and worth of this work as it is done for him.

The manager does not ordinarily arrange the stock or sweep the floor or wash the windows; but, directly or indirectly, he passes *judgment* on these and all other performances upon which the existence and success of his business depends.

Turn where you will or when you will, size up the manager's job from whatever viewpoint that happens to come to mind; you are sure to find the *core* of his duties in the reaching of *conclusions*—the making of *decisions*—the passing of *judgment.*

AN "OPERATION OF THE MIND"

With *judgment* so clearly the central essential in management, it certainly is worth while to focus our thinking briefly on the meaning of the word, even to the point of considering what the dictionary has to say about it.

Though it may seem a bit highbrow on first reading, Webster's definition of judgment surely does *hit the nail*

right on the head from the standpoint of its application to the manager's job. He defines judgment as:

"*The operation of the mind, involving comparison and discrimination, by which knowledge of values and relations of things is mentally asserted or formulated.*"

The same authority also defines judgment with only two words, both short, but highly expressive, *good sense.*

Whether we study the long definition or the short one or both, we readily see that the great central function in management is truly an operation of the mind. Judgment, you know, calls for a combination of *information* and *imagination.* The process involved in either developing or combining these elements is, of course, primarily mental; an operation of the mind.

But the most important point to remember is that *information* invariably is the *foundation* of it all. Judgment always is based on knowledge of the thing or process judged. The manager, therefore, must *know.* That is the fundamental necessity in his job.

Though the manager may not do the work, he needs a practical working knowledge of the principles that underlie every activity of his business. This is obviously true because such understanding is fundamental to the sound judgment upon which the profit and continuance of his business depends.

No matter how we define judgment or where we apply it, the soundness of the conclusion we reach is always in proportion to our understanding; and this pertains as completely to judging what the bookkeeping system should accomplish as to judging every other phase of the business.

WHY KEEP BOOKS?

Rather an interesting question, isn't it? Why keep books?

We need a satisfactory answer to that question, of course, before we can judge specifically what the bookkeeping system should accomplish. That answer gives us the most necessary portion of the necessary information.

Besides, the more studiously we consider the question through our own thinking, and from the viewpoint of the manager rather than the bookkeeper or accountant, the farther our vision extends and the broader the scope of our answer becomes.

In this respect, as well as in some of its detailed phases, the question "Why keep books?" is much like the similar question considered in Chap. XII, "Why take inventory?" Its value lies obviously in the thinking and analyzing it prompts and the extent of the resulting increase in *permanent profit producing.*

On one basic fact, all will agree from the start: *The permanent stability or continued growth of any business demands a dependable bookkeeping system to find usable figure-facts and to reveal helpful information for the manager.*

But the fundamental importance of the bookkeeping system from the standpoint of successful management, in no way indicates that the manager should be a bookkeeper. Far from it!

While a business is small, the manager himself may keep the books; and perhaps he should. It always is helpful to be able to do it. However, no man with real managerial stuff in him will do the detail work of his bookkeeping longer than is absolutely necessary.

The one thing invariably necessary for the manager is to have a thorough understanding or a good working knowledge of the basic principles that apply to his bookkeeping. Only with such understanding or knowledge can he *judge* the character and worth and effective use of his records, no matter how or by whom the bookkeeping may be done.

Progressive managers therefore do some real thinking now and then about why the books are kept, their purpose, what the records should accomplish, how they can be made more helpful in the job of producing *maximum profit.*

They realize that the bookkeeping problem never can be solved permanently by the all-too-common practice of hiring a bookkeeper or accountant and leaving it largely or entirely to him or to her.

They realize, too, that figures in themselves are absolutely worthless; that the only value in figures lies in the *practical use* that is made of them to help the manager make the business produce its *maximum profit.* This help often may be indirect, of course; but it always depends, in the last analysis, upon the *judgment* of the manager.

These progressive managers appreciate the importance of sizing up their records quite deliberately now and then, not to appraise their *material* value, but their *functioning* value. They occasionally consider each record studiously and answer for themselves this leading question in one form or another: *Of what use is this record to me in the management of my business?*

A SUMMARY OF HIGHLIGHTS

As applied to the individual business, the final answer to "Why keep books?" is not to be stated in general terms because specific requirements are bound to vary according to the peculiar needs of each separate store. From the standpoint of detail, no two independently managed stores are or ever can be exactly alike.

The highlights in the purpose of bookkeeping can be summarized, however, in but five fundamental points that apply with equal certainty to the needs of every business. These may be stated in the form of basic requirements which are:

1. The bookkeeping system must account for the entire business.
2. The figures obtained must show results and indicate causes.
3. The information revealed by the figures must establish a basis for intelligent planning.
4. The records must develop the figure-information needed in the successful management and control of the business.
5. The information obtained must be dependably accurate.

When the bookkeeping system measures up to these five requirements, we can be sure that it is fundamentally sound and that the details can be managed readily and adequately according to the specific needs of the individual store.

Furthermore, when the first, and fourth, and fifth, of these requirements are covered fully, we can be reasonably sure that the second and third will take care of themselves through the proper *use* of the information the records reveal.

So the really *basic* essentials of an adequate bookkeeping system are just the same as those mentioned in connection with the inventory (Chap. XII); that is, the bookkeeping records must be *complete, sufficiently informative,* and *dependably accurate.* Stated more completely, and as applied directly to the bookkeeping system, these three essentials may read:

1. To have a complete record of all commercial transactions and influences.
2. To develop, from the recorded transactions and influences, the figure-information needed in the most successful management and control of the business.
3. To obtain a dependable proof of accuracy.

Clearly, then, the entire bookkeeping problem, like the entire inventory problem, centers itself around the development of helpful information by means of analytic records. All that was said in that connection regarding the inventory applies equally well to the bookkeeping system.

Also, exactly as in the case of the inventory, the three essentials render excellent service in determining what the bookkeeping system should accomplish, as well as in determining whether or not it is measuring up to our needs and ideals.

MORE ABOUT THE THREE ESSENTIALS

Let us now give brief consideration to each of the three basic requirements or essentials of an adequate set of books.

1. To have a complete record of all commercial transactions and influences.

By "commercial transactions" we mean, of course, the actual dealings which cause money to be either paid out or received. Such transactions are clearly visible and readily recognized. For that reason, no doubt, they usually are covered quite amply from the standpoint of being recorded, from the standpoint of the first essential.

In this connection it is important to remember that a record can be *complete* without recording each transaction individually. For example, transactions of like kind can sometimes be recorded as a total for a given time period. This applies, of course, only when detailed information is not required, as is often the case with cash sales.

By "influences" we mean the things that affect the profit of the business more indirectly; such as depreciation, shrinkage, spoilage, shortage, interest on investment, salary of the proprietor when not paid him directly, rental value of the building when it is owned by the proprietor of the business, and bad-account losses.

Influences of this character require more special attention in recording because they are not so readily or so completely recognizable and are, therefore, more easily and more frequently overlooked or neglected.

They are aptly termed "invisible expense," in some instances, because at least portions of them sometimes are not noticed until serious damage has been done. Occasionally they are not recognized at all, even after the resulting damage is clearly in view.

The important phase of it all is that these *influences*, whether or not they may be recognized, have just as certain an effect on the ultimate profit of the business as do the *transactions* or specific merchandising activities. For the sake of dependable information such influences must, therefore, be stated definitely in the records; and as accurately as possible according to the just measure of their extent.

2. To develop, from the recorded transactions and influences, the figure-information needed in the most successful management and control of the business.

Here, in this second essential, lies the biggest problem of all record keeping because it calls for the greatest quantity and quality of judgment on the part of the manager.

Clearly, the quantity and quality of the necessary judgment depends primarily upon the manager's understanding of the bookkeeping principles and procedures—upon his understanding of *what* the bookkeeping system should accomplish and *how*—upon his understanding of:

a. *What* is being done.
b. *Why* it is being done.
c. *How* it is being done.
d. *Why* it is being done *that way.*

Here, in this second essential, lies also the broad general answer to "Why keep books?" No record can have any possible excuse for existing unless it develops information that can and will be used in managing and controlling the business more *successfully* and more *profitably* than would be possible without it.

In the last analysis, therefore, the real essence of what the bookeeping system should accomplish depends upon the extent to which the resulting information can and will be made to serve as an aid and a guide in *management;* and no one ever reaches the full limit of possibilities in that regard.

In fact, the farther we progress in the study and the better results we obtain, the more clearly we see that there is yet more to be accomplished. We can progress *toward* the goal of perfection, but we never can reach it.

3. To obtain a dependable proof of accuracy.

While this is given as the last of the three essentials or basic requirements of an adequate bookkeeping system, it is by no means to be considered secondary in importance. We simply cannot judge the bookkeeping system effectively without carefully examining the means for proving the accuracy of its figures.

This last essential is of particular importance because of the well-known fact that figures without proof of accuracy frequently are harmful rather than helpful, and always are more or less dangerous.

Indeed, one of the outstanding reasons why no bookkeeping system or procedure can be permanently satisfactory unless it is *fundamentally sound*, is found in this very need for proof of accuracy.

And that is exactly why every manager needs thoroughly to understand what commonly is known as "double entry." The one element that marks the difference between memorandum records and real bookkeeping is found in the *double entry* feature for helping to prove the accuracy of the figure-information the records reveal.

It may be well to add in an incidental way that double entry really is a somewhat misleading sort of term which may have caused some of the occasionally encountered doubt as to its practicability in the smaller stores. The term savors a bit of double effort—extra work—duplication. The principle is, of course, entirely innocent of any such requirement. "Proof entry" would seem to express the real situation more accurately.

ONLY TWO BASIC RECORDS ARE USED

In determining what the bookkeeping system should accomplish, the manager must know what are the really basic records or essential books. He also must know how the principles that underlie these records are applied effectively, regardless of either the kind or the number of books or records that may be used.

The big point to remember is that variation in books or record forms is merely a matter of expedience or convenience, while the principles of their correct application are essential and remain ever the same. This is important, of course, because details can be sound only when the principle upon which they are based is sound.

For the next big point, we need merely to recognize the obvious fact that the basic records must meet the demands of the basic requirements. That is, the basic records or books must provide for recording all of the commercial transactions and influences, facilitate the devel-

opment of the needed information, and make possible the necessary proof of accuracy.

Now, since proof of accuracy is obtained through the balancing process and various check-ups, no basic record is required for this essential element or basic requirement. Only two basic records remain as being absolutely necessary. These commonly are known as journal and ledger.

The Journal.—This basic record meets the demands of the first basic requirement. It provides for recording all of the commercial transactions and influences which affect the ultimate profit of the business and can be measured in terms of money value.

A single record form with ordinary *journal ruling* will suffice for making a correct bookkeeping entry for any commercial transaction or influence that can occur in any business. That is one of the reasons why such a record is *basic.*

Another important point is that, no matter how many record forms may be used in any business, every correct bookkeeping entry must have exactly the same ultimate effect as if it had been made correctly on a form with nothing more than the ordinary journal ruling. This is another reason why the journal, as we use the term, is a *basic* record.

Almost limitless variation in the form of this basic record may be applied, but all such variation is *detail* and is applied solely for the sake of expedience or convenience. A cash book, for example, is only a *division* of the *basic journal* and is, therefore, in itself a *journal* record. Register tapes, sales tickets, and other forms also may be used as parts of the *basic journal.*

To judge what the bookkeeping system should accomplish, the manager must know not only *that* this is true, but also *why* it is true. In addition thereto, he must be able to recognize the ultimate debit and credit effects of every entry, no matter *where* or *how* it is made.

The Ledger.—The sole purpose of the ledger is to develop specific information. It is essential or basic only because

of the impracticability of picking out of the journal all of the entries of like kind which must be brought together to obtain a given item of information *when it is needed.*

As in the case of the journal, the ledger can be subdivided to any extent that expedience or convenience in the development of the desired or required information may demand. Generally speaking, the greater the number of subdivisions the better the result.

The *form* or *ruling* of a record book has nothing whatever to do with making it either a journal or a ledger. It always is the *use* made of a record that determines whether it is meeting one or the other of the basic needs. This also is an important point to remember.

The ledger is nothing more than a *classified summary* of all the entries recorded in the journal. The classification is accomplished, of course, by means of accounts; and an *account* is merely a *summary* of all the transactions or influences of a given kind, showing both debit and credit effects.

Through this process of classification by means of *accounts*, the ledger accomplishes its purpose in the development of specific information. To any extent that a *journal record* may be *classified*—that is, made *analytic*—it simply partakes of the nature of the ledger.

FOUR BASIC FACTORS OF CONTROL

Control is a broad term which applies in one way or another to every phase of the business. Control for the business as a whole finally centers itself, however, in the four factors of *period control* mentioned in our "basic outline of a profit-making program" (Chap. I). These four factors are: Assets, liabilities, incomes, and expenses.

In adequately determining what the bookkeeping system should accomplish, the manager understands and bears in mind *how* and *why* these four basic factors of control finally involve everything that ever can happen in or to the business. He realizes that every commercial transaction and influence affects one or more of these four factors.

He also realizes that his business, like his car, is tested and judged from two fundamental standpoints:

1. Its physical condition or fitness.
2. The result of its activity, its *production.*

He knows that two of the basic factors of *period control,* assets and liabilities, constitute a *financial* or *condition* statement which indicates the *fitness* of his business, its financial *soundness,* its *condition;* and that the other two factors, incomes and expenses, constitute a *profit* and *loss* or *progress* statement which measures the result of its activities.

He understands that the last step in *control* is taken when the improved (or otherwise) condition of the business at the close of a given time period, checks with the advancement (or otherwise) as measured for that period by the *progress statement.*

No matter how carefully and completely every phase of the business may have been checked, or proved, or controlled throughout the period—no matter how well the *current control* of capital and merchandise and personnel has been handled—the final proof is obtained when the difference in *condition* between the beginning and close of the period tallies with the *progress* accomplished by the activities of the business during the period.

Again, the essence of the principle involved is quite as simple and absolutely the same as that employed in the ordinary *balancing* of cash. We must first know what we *should have* and then make sure that we *have* it, or *vice versa.* Therein lies the *balance* or *proof* which becomes *control* to the extent that *accomplishment* tallies with *aim;* to the extent that *actual* result equals *planned* result.

The graphic illustration on page 189 portrays the application of the simple principle. The detail of application may vary, of course; but the principle always remains the same.

A GUIDE TO ACCOMPLISHMENT

Finally, and above all, the manager realizes that the information revealed through his bookkeeping system or

any of his records is valuable or helpful only to the extent that it *inspires*, and *guides*, and *assists* him in *accomplishment* both during the *current period* and for the *future*.

He realizes that *planning* and *budgeting* are essentially the same and that both are based on *information*. So he gets his information promptly enough and frequently enough to help him see what should and can be *made* to *happen*, as well as to tell him what *has happened*.

He knows that records which do not serve as *guides* in some way or other are absolutely worthless. So he sees to it that one of the chief accomplishments of his bookkeeping system lies in guiding him to greater accomplishment in *permanent profit producing;* in the development of both *progress* and *stability*.

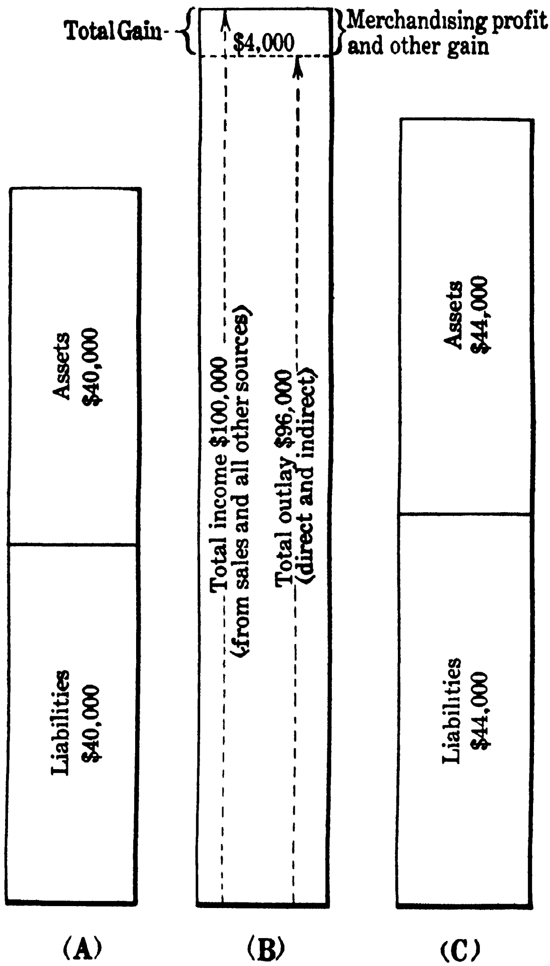
And he does this primarily through studying his own records with a view to determining whether and to what extent they are measuring up to his needs and ideals. He also studies what others have done and are doing, of course; but primarily to assist him in better understanding his own needs and in developing his own ideals.

From the standpoint of determining what the bookkeeping system should accomplish, we may therefore analyze the manager's job into these three important elements:

1. To judge the adequacy of the information revealed through his records.
2. To judge the efficiency and dependability of the process through which the record-information is developed and proved.
3. To judge the value and helpfulness of the *use* made of the information after it is obtained.

While the manager can and often should enlist the service of a competent specialist to assist him in the performance of this fundamentally important function, he cannot with safety accept the *judgment* of the specialist as *final*. To play safe, the final judgment always must be *his own*.

Graphic Illustration of Check-up Between Progress and Condition Statements



FORM 21.—*A* = Condition statement at the beginning of the accounting period. *B* = Progress statement for the period, including all income and outlay. *C* = Condition statement at the close of the period, showing an increase equal to the total gain indicated by the progress statement. The proof consists in making sure that this increase is on hand.

NOTE: Assets include everything that is owned by the store. Liabilities include *outside liabilities*, what the business owes to others; and *capital* or *net worth*, what the business owes to its owner or owners.

CHAPTER XIV

CONSISTENT SIMPLIFICATION OF BOOKKEEPING

Consistent simplification of bookkeeping provides short-cuts that save time and yet reveal all of the necessary information. The logical aim is to produce the best possible results with the least possible effort. Simplification is secondary to getting the information that will guide to maximum profit volume.

The functions of the journal and ledger may be combined to some extent, but must be maintained. The most important record is the general ledger because it determines whether or not the bookkeeping system can accomplish its purpose. A properly designed analytic journal provides a suitable means for consistent simplification.

With a clear grasp of what the bookkeeping system should accomplish, our next interest along this line is to determine how the desired results can be obtained most easily.

Simplification of bookkeeping has received much consideration in recent years, and rightly so. The one thing to guard against is *over*simplification. Short-cuts are all right, so long as they do not *cut short* on the ultimate accomplishment, so long as they do not become "penny-wise and pound-foolish."

The logical aim is, of course, to produce the *best possible result* with the *least possible effort.* That is the essence of real *system.* Considered from that viewpoint, we readily see that there can be no such thing as too much system. Too much *red tape,* yes, very easily; but too much system, no, not if it is *real system.*

The result to be accomplished deserves always to receive *first* consideration. The fundamental requirement is to obtain the information needed in the most successful

management of the business. Obtaining it with the least possible effort (simplification) always is *secondary,* though highly important.

For the purpose of developing the required information, every business needs a bookkeeping system which, as mentioned in the preceding chapter, consists fundamentally of a journal and a ledger. Perhaps it would be better to say that the system must perform the *functions* of the journal and the ledger, because that is the really important point.

It is well to remember, too, that there is only one reason why these two functions are essential: The required information with dependable proof of accuracy cannot be obtained without them. Any short-cut that interferes with getting the needed information and properly proving its accuracy, is clearly a case of penny-wise and pound-foolish; it is a short-cut that *cuts short.*

THE GENERAL LEDGER

Since the development of the necessary information is the all-important factor, the first consideration in any bookkeeping system is the General Ledger, the ledger that presents a condensed summary of the entire business by accounts. It contains all of the accounts of the business excepting such detail accounts as are better *summarized* in the general ledger.

A business, for example, may have three distinct classes of accounts; accounts with those to whom it sells, accounts with those from whom it buys, and all other accounts which represent various phases of the business. These three classes ordinarily are known as "Accounts Receivable," "Accounts Payable," and "General Accounts."

Simplification requires that the Accounts Receivable and Accounts Payable be kept in separate groups. Accounts Receivable usually are kept in a separate ledger. As explained below, Accounts Payable often can be handled without a ledger. To make the general ledger *complete,* as well as to develop more specific information, each group

of individual accounts is represented in that ledger by an account commonly known as a "controlling" account.

The basic principle of the controlling account embodies nothing more than keeping *details* in one place and *totals* in another. Such an account *controls* because its balance must agree with the total of all the balances on the individual accounts it represents. It therefore provides an excellent means for proving accuracy; one checks against the other.

The separate ledger idea often is applied to other groups of like accounts, such as Notes Receivable and Notes Payable, when sufficiently numerous to justify. Some of the large concerns even keep a separate Expense Ledger, simply summarizing in the general ledger to show the total. It is necessary to understand the principle of the controlling account, because it stands as one of the most important factors in consistent simplification.

The general ledger contains the accounts from which the *condition* and the *progress* of the business are ascertained. It must be right because it determines whether or not the bookkeeping system can accomplish its purpose. All else is secondary. As one successful merchant put it: "Give me the right general ledger, and I will care very little about what the rest of the bookkeeping system may be."

THE GENERAL LEDGER ACCOUNTS

At the birth of a business, the general ledger might be complete with but two accounts which would represent the Assets and the Liabilities of the business.

Suppose, for example, a man should deposit $10,000 in the bank for the purpose of starting a business. In effect, then, this fund will belong to the *business*, not to the *man;* and the business will be responsible or *liable* for that amount to the investor. Under that condition, the general ledger would show: Assets, $10,000; Liabilities, $10,000; or Bank, $10,000; Capital, $10,000.

In other words, the general ledger in its simplest form or when "closed" will take into consideration only such

accounts as represent assets and liabilities, the one group equalling the other. Therefore, were no more specific information required, one account for assets and another for liabilities would suffice.

Since more specific information always is required, we merely retain the two *divisions*—Assets and Liabilities—and subdivide them into as many accounts as the situation may demand. Under simple conditions, the Assets might be subdivided into Cash, Bank, Accounts Receivable (if any), Merchandise and Fixtures; and the Liabilities into Accounts Payable and Net Worth (Capital).

The activities of the business develop expenses and incomes which also are subdivided according to the demands of the situation. Therefore, the complete general ledger embodies the four divisions; Assets, Liabilities, Expenses and Incomes. These are given further consideration in the next chapter.

What we now desire to emphasize, is the fact that the general ledger always is the *backbone* of the bookkeeping system, and that this is a record with which every manager needs to keep closely in touch all the time. That is why the general ledger always should be a separate volume which can be handled easily without interfering with any other portion of the work.

Even in the small store which has but few accounts in the general ledger, the separate volume usually will prove itself to be an element of effective *simplification.* The manager then keeps it within easy reach, and makes more frequent and more advantageous *use* of it. Like every other record, the general ledger is valuable and helpful only to the extent that it is *used to advantage.*

THE GENERAL LEDGER FORM

While any ledger ruling will serve the purpose of a general ledger and a number have been designed especially for this use, simplification suggests a form that is ruled with but one "date" column, one "description" column, one "posting reference" column, and three "amount"

columns; one each for "debits," "credits" and "balance." An additional column for "remarks" or "memoranda" often proves helpful. An illustration of such a form is shown:

Sheet No....... **General Ledger** **Account No........**

Name of Account..................................

	Date 19 .	Description	Post'g Ref.	Charges	✓	Credits	✓	Balance	Memo

FORM 22.

This arrangement of the ledger form eliminates the necessity for ruling off the account. The balance can be extended for every entry, thus revealing the exact situation at any time without stopping to figure; an obvious advantage to the manager because each account will tell its complete story whenever he looks at it.

In balancing the account at the close of the month, cumulative totals can be shown. This is accomplished by simply adding in the last previous total of postings. The totals are entered on the next unused line, just as is every individual posting. They can be written with a different color of ink to make a clear demarkation for each month, thus eliminating the need for ruling off.

The cumulative totals are helpful because they show both the total of the charges and the total of the credits since the account began, or since the beginning of the year. Usually, a new start should be made at the beginning of each year, thus to make the figures more meaningful.

When balances are extended for each entry, the cumulative totals also provide an automatic proof of accuracy because the difference between the two cumulative totals

will reveal exactly the same balance that was obtained for the last preceding entry, the entry on the line above.

So many advantages accrue through the proper use of this form that it deserves careful consideration not only for the general ledger, but also for any other ledger that may be used.

THE JOURNAL

In considering simplification from the standpoint of the journal, we will use the word "journal" as presented in the preceding chapter—that is, as meeting the requirement of the first essential of an adequate bookkeeping system—providing for the proper recording of all commercial transactions and influences.

We must remember that the journal is simply the medium through which specific information is conveyed to the ledger, and that it may be in any desired number of divisions or forms. Journal, as we use the term, does not refer to a specific book or record, but to every book or record from which either detailed or total postings may be made to the ledger.

Were there no need to have a continuous record of transactions which will readily show what has been done in any given time period or on any particular date, and no need to check back postings in case of being out of balance, all entries could be made direct to the ledger so far as meeting the needs of the bookkeeping system is concerned. Since such needs invariably exist, the journal is *essential.*

When postings are made from sales tickets that can be referred back to from the posting to the customer's account, those tickets will serve effectively as a portion of the journal. Again, should postings be made from check stubs or from carbon copies of remittance letters, these can be made to answer every purpose of a journal record.

To avoid short-cuts that cut short, we must bear in mind what the essential function of the journal is, and how this can be complied with in a variety of ways; any way that will provide the necessary continuous record, enable the

proper posting of the ledger, and permit checking-back in case of an error which cannot be located by other means.

That recognition will assist us in determining how the bookkeeping can be simplified *consistently;* that is, without losing in the long run because of the interference with the proper functioning of the system in developing the required information and providing the necessary proof of accuracy.

COMBINING THE FUNCTIONS

Bearing in mind that the basic function of the journal is to *record* the transactions, and that of the ledger to *classify* them for the development of specific information; our attention may be turned again to this statement made in the preceding chapter: To any extent that the *journal record* may be *classified*—that is, made *analytic*—it simply partakes of the nature of the ledger.

However, since the final information always must appear in the ledger, every division of the journal is made more for the sake of simplification or expedition than for the development of the ledger function; that is, for the development of specific information.

When it was found, for example, that the cash transactions could be handled more conveniently by recording them in a separate record, the cash book made its appearance. Of course this separation of the journal entries also placed the *information* in more useable form, but the prime objective was convenience and expedition.

The same may be said of all other divisions of the journal: Sales journal, purchase journal, notes receivable journal, notes payable journal, or whatever the division may be. So great are the advantages obtained through consistent separation of the journal, that the modern bookkeeping system often retains a general journal in which only such transactions and influences are recorded as cannot be classified effectively in a separate record.

The advantages of separation also brought about the columnar journal, in which the desired divisions are accomplished through the use of special columns, rather

than separate books or records. The objective remains exactly the same—to simplify—to save labor—to expedite. The principle also remains exactly the same.

Every division of the journal, whether accomplished by means of separate books or special columns, automatically develops a certain degree of specific information. To that extent, then, the functions of the journal and the ledger are combined. The value of the combination depends upon the amount of labor saved and the usefulness of the resulting information.

DEVELOPMENT OF IMMEDIATE INFORMATION

Consistent simplification therefore demands that we give due consideration to the information-developing phase, as well as to the labor-saving phase. Information developed automatically is obviously available more promptly than that developed by posting to ledger accounts; a point of outstanding importance.

Some items of information are of such a nature that they need to be more closely and constantly watched by the manager. When these can be developed automatically by the simple process of separation so they will be available as soon as the entry has been made, the most helpful kind of simplification is accomplished.

In undertaking to select the items on which immediate information is most helpful—the items with which the manager needs to keep himself constantly in closest possible touch—we are fairly sure to conclude that he needs to know:

1. **As to bank:**
   a. How much money has been received and deposited?
   b. How much has been paid out by check?
   c. How much is the available bank balance?
2 **As to cash discount:**
   a. Has every available cash discount been taken?
   b. How much has been earned on cash discounts?
3. **As to customers' accounts (accounts receivable):**
   a How much has been charged to customers' accounts?
   b. How much has been credited to customers' accounts?
   c. How much is outstanding on customers' accounts?

4. **As to creditors' accounts (accounts payable):**
   a. How much indebtedness has been incurred on accounts payable?
   b. How much of this indebtedness has been paid or otherwise settled?
   c. How much do we owe on accounts payable?
5. **As to merchandise purchases:**
   a. How much merchandise has been received and accepted?
   b. How much of the entered purchases has been returned or adjusted through allowance (credit memo)?
   c. How much is the invoice value of the net amount of merchandise received?
6. **As to merchandise sales:**
   a. How much is the total of merchandise sales?
   b. How much of the merchandise sold has been returned or adjusted through allowance?
   c. How much is the net amount of merchandise sales?
7. **As to expense (cost of doing business):**
   a. How much is the total of all expenses?

There is, of course, other information with which the manager needs also to keep closely in touch, but the entries usually do not occur with sufficient frequency to justify separation in the journal from the standpoint of saving labor.

THE ANALYTIC JOURNAL

All of the above information, as well as any other that peculiar conditions may demand, can be developed automatically through the use of a properly designed analytic journal, such as is illustrated on page 199.

Such a journal is "analytic" because each entry is made so as to show separately each of the major kinds of transactions automatically; that is, without posting. It represents consistent simplification because it both simplifies and meets every demand of an adequate bookkeeping system.

It is *complete* because it provides a general ledger column which serves as a general journal. This column takes care of every entry that is not specifically provided for by means of a separate column. The entries therein made are posted individually to the general ledger because they do not occur with sufficient frequency to justify a special column.

Every expense is entered in the expense column and posted individually to the proper account in the general

ledger, just as are the entries made in the general ledger column. These postings are made easily because all expense accounts are kept in one division of the general ledger, and usually are designated by numbers which serve automatically as an effective index; also because the column is placed at the extreme right in the analytic journal.

Folio............ **Analytic Journal for**

Bank record				Discount earned	Accounts receivable			Record of transaction	
Receipts (Dr)	Checks (Cr)	Check No	Balance (Memo)	Cr	Dr.	Cr.	✓	Day	Name or description

Left-hand page.

The Month of .... **19**...... **Folio**.

Accounts payable			Mdse purchases				Mdse sales				General ledger				Expense		
Dr	✓	Cr	Dep	✓	Dr	Cr	Dep.	✓	Dr	Cr.	Acct No	✓	Dr.	Cr	Acct No	✓	Dr.

Right-hand page
FORM 23.

The advantage of thus revealing the total of all expenses in the analytic journal and classifying them to any desired extent in the general ledger, results from having the total cost of doing business (all expenses) stand out as *immediate information* and always permitting any desired expense classification without changing the form and with an exceptionally simple posting operation.

Another advantage of this arrangement is that every item of expense appears in its respective account in the general ledger, thus making it possible to get a detailed picture of any expense classification at a glance. This is particularly helpful because expense accounts need especially to be studied analytically (in detail) when constructing the expense budget or when it appears that curtailment is either necessary or desirable.

All other columns take entries that need not be shown in detail in the general ledger. The totals of these columns are therefore posted to the general ledger at the close of the month. This is *consistent simplification* because it saves labor and also develops the desired information effectively.

Should it be desired to carry separate accounts in the general ledger for the chief merchandise divisions or departments, the provision for posting references with the Merchandise Purchases and Merchandise Sales columns makes that possible. Complete flexibility is thus obtained.

This form serves as a clearing house for the entire business; a channel through which every entry passes on its way to the general ledger from which the final analysis is obtained. It is particularly well fitted for stores in which all of the general bookkeeping is done by one person, but it also can be used to advantage in large stores as a general journal.

"CLEARING" THROUGH THE BANK

Since cash is the life blood of the business, its effective control might be called the "first law" of business. One phase of this necessary control is accomplished through the expense budget. The phase we wish now to discuss, pertains to the control of the cash itself, the money that comes in and goes out.

No element of simplification along this line accomplishes more than the common sense practice of clearing the entire business through the bank; that is, by depositing every penny received and paying every penny by check. This

does not mean, however, that every payment must be made with a check; nor that the exact amount received each day must be deposited on that day.

All that is necessary, so far as the deposits are concerned, is to make sure that every penny received finds its way into the bank so that total deposits will exactly equal total receipts. That simple practice accomplishes what may well be termed an *automatic audit* of the cash received. Space limit prevents a discussion of the advantages, and most of them are too obvious to require special mention. Many stores are using the plan now. Any store can use it to advantage.

Most payments can and should be made by check. Small payments are made from a petty cash fund which is replenished by drawing a check whenever necessary. The petty cash payments ordinarily should be recorded on a separate sheet provided for the purpose. In some instances they require no detailed analysis in the general ledger. Simplification is then accomplished by charging each *check* for petty cash to an *account* for petty cash.

The necessary change with which to start each day is constantly retained and accounted for in the general ledger with a Change Fund account. That account is affected only in case of increasing or decreasing the change fund.

When it is necessary to make a larger cash payment than should be made from the petty cash fund, the amount can be taken out of the cash drawer and replaced by means of a check drawn to currency or to the bank or the one who receives the money, any way to have the exact amount represented. The bank will accept the check, of course, in the deposit. So the effect remains exactly the same as if the cash itself were deposited.

A number of possible situations might be mentioned, but all of them can be handled readily by anyone who remembers that the essence of the plan lies in making the deposits equal exactly (to the penny) the total receipts of the business.

COMMENTS ON THE ANALYTIC JOURNAL

The purpose of the analytic journal is to reveal the maximum of helpful information with the minimum of clerical effort. In other words, it aims at the maximum of *consistent simplification.*

Under the plan of depositing total receipts, no column is needed for cash transactions. The debit entry for all receipts is made directly in the Dr. column under Bank Record. This column then shows both the total receipts and the total deposits, counting in any amount on hand that is to be deposited. The positive *control* thus obtained is apparent; all money passes through the bank.

Checks are entered in detail unless, as sometimes is done, a separate Check Record is used. The separate check record is required, however, only when more than one bank is employed. In that case, the bank record in the analytic journal simply becomes a summary of all the bank accounts.

Cash discounts taken are recorded in the discount earned column when payments are entered, thus helping to keep this highly important item constantly in mind and also greatly simplifying each entry.

Charge sales posted to customers' accounts from sales tickets are entered in the Dr. column under Accounts Receivable (total only) from the sales recapitulation as frequently as desired, preferably each day to keep the journal up to date. All payments received on customers' accounts usually are entered in detail and posted from this record to the charge account. A check mark suffices to show that the posting has been made, because reference to the account is by name.

Accounts Payable can be controlled effectively without keeping a ledger for these accounts. The unpaid invoices from each creditor can be kept together to serve the purpose of the ledger account. In that case, the invoice is simply marked "paid" when the check is drawn. Since the balance of accounts payable must agree with the total of the unpaid invoices, proof of accuracy is readily obtained.

Each page of the analytic journal is footed when filled. The totals are carried forward from page to page for the sake of immediate information. This procedure also facilitates balancing because accuracy can be checked on any page by simply making sure that the total of all Debit columns is equal to the total of all Credit columns.

To reveal the maximum information, a new start is made at the beginning of each month. The columns of the analytic journal then show the progress of the business for the month, which often is needed as an element of *immediate information.* The complete status of any division is obtained quickly by consulting the general ledger.

An excellent summary is obtained by simply recording the monthly totals on a separate page of the analytic journal, using a line for each month's totals and another for the cumulative totals; totals to date.

The best results are obtained when the analytic journal is a "loose leaf" record. The sheets for the current month can then be handled in a convenient holder (spring back) and the completed record for each month can be filed for convenient reference, month by month, in a binder (sectional post) so there will be no interference between references and current work.

MECHANICAL BOOKKEEPING

Such tremendous development has been accomplished in the field of mechanical bookkeeping, that at least a brief mention is fitting in connection with our consideration of *consistent simplification.* There is, however, no need to discuss the advantages of machine-written records because these always are presented with sufficient emphasis when a machine is offered for the job.

Rather, we turn our thoughts to possible disadvantages which are less sure to have ample consideration when a machine is being demonstrated. But this does not mean that we are opposed to mechanical bookkeeping—far from it!—except, of course, when it becomes an *inconsistent*

application; when the work might better be done with hand-written records.

There are plenty of situations where the advisability of applying machine methods is quickly apparent; where there is no doubt about it. There are other situations where it is equally apparent that hand-work is better. Between the *obvious* situations, we have what might be termed a "zone of doubt." Under those conditions, a careful consideration of the possible advantages in hand-written records may prove decidedly helpful.

We make no effort at a complete discussion, but merely mention, in outline form, some of the things worth keeping in mind as possible advantages in hand-written records:

1. Ordinarily, less skillful operators are required; less training is necessary.

2. Accordingly, the hand-written work presents less opportunity for embarrassment caused by unexpected absence of the operator or an undue demand for higher wage.

3. To the extent that less training and ability may be required, hand-written records consume less labor cost unless offset by saved time.

4. Hand-written records also involve less installation cost, and no machine depreciation and repair expense.

5. Hand work provides greater flexibility—additional help can more easily be applied when needed—is applicable to all records, while machine work can be used only on records to which it is adapted.

6. Hand-written records usually are more compact and more easily handled; more convenient.

7. The necessary forms frequently are more simple and more economical.

8. With proper method and equipment, hand work is accomplished in some instances with greater ease and speed, and with equally dependable proof of accuracy.

CHAPTER XV

MORE PROFIT THROUGH BETTER USE OF FIGURE FACTS

The value of figure-facts depends upon how they are used comparatively, so they must be grouped and arrayed to facilitate helpful comparisons. Cumulative totals and percentages often make comparisons more effective. The budget must be brought into active play. Judgment is developed through studious comparison of results accomplished with those aimed at in planning.

A clear understanding of the simple fundamentals in modern management and control, leads to the profitable use of figure-facts. The frequently encountered difference between profit aimed at and profit realized, indicates the need Maximum profit volume is reached only through maximum sales with minimum stocks and maximum margins with minimum costs.

You probably remember the ancient story of a famous chef who was asked to tell how he made his delicious rabbit stew. His recipe brought him greater and more lasting fame than the stew itself because he started with an essential part of the procedure which many another would have omitted,—"*First get the rabbit.*"

This story suggests the right beginning for our discussion on "more profit through better use of figure-facts." No matter what else the process may require, the figure-facts themselves always stand as the element of *first* importance. So we may well follow the lead of the famous fashioner of rabbit stew and confidently start our recipe with: *First get the figure-facts.*

To some extent, of course, every one of the preceding chapters has dealt more or less directly with our present subject. The entire profit-making program resolves itself finally into just these two elements:

1. Obtaining helpful information.
2. Making effective use of it.

Information, as here applied, is a term of broader scope than *figure-facts*. The latter pertains merely to the *facts* expressed in *figures*, while *information* is all-inclusive. It frequently grows out of or results directly from a careful study of figure-facts, but it also comes from limitless and often unsuspected sources.

WHAT FIGURE-FACTS ARE USEFUL?

The selection of the figure-facts that can and will be used to the best advantage in any given business, is another factor in management that necessarily rests largely upon the individual judgment of the manager. This is obviously true, of course, because the major benefit can be obtained only from using our own figure-facts in our own way; *in the way we fully understand.*

As indicated in Chap. XIII, the job of selecting the most helpful items of information to assist us in increasing sales and profit calls for about as high a quality of judgment as any manager ever is required to exercise.

Furthermore, it is one of those enduring jobs that never can be looked upon as being finished for keeps. In other words, the final answer—the last word—never has been and probably never will be found. Constant improvement, rather than permanent perfection, therefore may be taken as the logical and never-to-be-neglected aim.

There are, of course, certain basic elements of figure-information that every store must have to reach its maximum possibilities, no matter what its kind or size. Such elements, for example, as these:

1. Everything involved in the four basic factors of period control—assets, liabilities, incomes and expenses—each subdivided into "accounts" according to the specific information the manager can and will use to advantage.
2. Sales classified according to sales people, merchandise divisions and time periods.

3. Stocks classified according to merchandise divisions, and measured according to the average length of time the goods remain in the store.
4. Mark-ups, price reductions (mark-downs) and margins separately for each merchandise division, as well as for the store as a whole.
5. Profit (or loss) as accomplished by the store as a whole and also by each of the merchandise divisions, and by definite time periods.

Our chief object just now is, however, to go a step farther and turn our thinking more particularly to how the information already developed can be put to the most profitable use.

This is especially worth while because the better use we make of the information already at hand, the more profit will we make from our present volume of sales, and the better will we be able to select the additional figure-facts that will help us increase both our *sales volume* and our *profit volume* in the future. It is simply another case that does a lot of *growing*, once it gets a good *root system.*

FIGURE-FACTS ARE THE "TOOLS" OF MODERN MANAGEMENT

Most, if not all, of the large stores now maintain a "department of statistics" in one form or another. The purpose of every statistical department is, literally, to develop "more profit through better use of figure-facts. (It may be well to mention incidentally that all figure-facts are statistics, but not all statistics are figure-facts. The difference is worth noting.)

The smaller store usually cannot maintain a special department of this kind, nor is it necessary. The large store simply does in a more specialized way what the manager of the smaller store ordinarily must do for himself along the line of gathering helpful figure-facts and making profitable use of them. The manager of the smaller store has a distinct advantage in being closer to the job, which should result in relatively better application.

If we can draw any one particularly important lesson from this modern development in the use of statistics or figure-facts, it lies in more fully realizing that the permanently successful guidance of modern business is based largely on management and control through the use of recorded information; through the use of *figure-facts*. Control is, of course, a phase of management; but it is a sufficiently important one to justify the special mention.

The rapid development of statistical work shows clearly that figure-information is becoming an increasingly important factor in modern retailing. This applies to stores of every size, though it unquestionably is true that the larger the store the more it is *forced* to depend upon figures.

Proportionately, however, the smaller stores can use figure-facts with equal helpfulness; and they certainly have the advantage of less opportunity for developing figures that never are put to practical use. It seems surprisingly easy to start an accumulation of figures in a large office, and then lose sight of the fact that their only value is in the *use* that is made of them.

Figure-facts have well been termed the "tools" of modern management. The comparison is appropriate in a number of ways. Both tools and figure-facts must be *provided, suited to the purpose, used skilfully, and conditioned now and then.*

Indeed, the manager who operates on the theory that he can accomplish more by *just doing business all the time,* rather than by taking time to provide suitable figure-facts, develop skill in using them, and deliberately condition them when necessary; well, he simply emulates the mechanic who is indifferent in similar respects as to his tools. Not many chips will fall to the woodchopper who keeps himself so busy *chopping* that he never finds time to sharpen his ax.

After all, the real mill of management does its most effective grinding not while the manager is working directly with merchandise and people, but while his mind is fixed on helpful arrays of *figures* which portray the specific *facts* upon which he *builds* his business.

FIGURE-FACTS MUST BE COMPARED

Let this point take deep root in every consideration of how to develop "more profit through better use of figure-facts:" *The value of recorded information depends directly upon how effectively it is used in making comparisons.*

The principle of comparison is therefore essential in making our figure-facts tell us all they know. This simply means, of course, that the more carefully our figure-facts are selected and the more effectively they are arranged for informative comparison, the greater will be their value and helpfulness.

This is another matter that has much greater influence on both *sales volume* and *profit volume*—on *continued success* in merchandising—than ever can be realized on first thought. Like a number of other phases of profitable retailing that frequently are crowded out by the constant stress of daily routine, it impresses us more and more *forcibly* as we study it more and more *earnestly.*

It is all based, of course, on the well-known fact that *value* of every kind is necessarily a *comparative* quality. Not even vaguely can we imagine a *value* in a thing that stands absolutely alone; that is in no way to be *compared* with some other thing or things. On the other hand, the more direct and inclusive or extensive the *comparison* may be, the more definitely and accurately is the actual *value* determined. The rule applies to figures as well as to everything else.

This quite obvious point is worthy of special emphasis because those who are interested in making a retail store produce *more profit from the present volume of sales* and then *still more profit from increased sales,* cannot realize too fully that using figure-facts to the best advantage calls constantly for direct and specific comparisons.

Let us see to it, therefore, that our information-revealing figures, after being carefully selected and developed, are grouped and arrayed properly to facilitate helpful comparisons. After raising a good crop of figures, let us be sure to reap the full harvest of *profit* that depends so largely

upon the way we *use* those figures *comparatively. The value of recorded information depends directly upon how effectively it is used in making comparisons.*

PERCENTAGES HELP COMPARISONS

Another step is necessary in making our figure-facts tell us all they know. This step may not apply to *all* figure-facts, but it does apply to most of them. It is based on recognizing that many figures are not to be compared to the best advantage until their relationship is shown in *percentage.*

Just by way of a very simple illustration, let us take a set of figures and study them a moment with a view to seeing how effectively both arrangement and percentage help to bring out their relationship and significance. Let us consider the monthly sales of a given store for a year, as follows:

January, \$9,620; February, \$8,932; March, \$11,741; April, \$14,284; May, \$22,412; June, \$18,634; July, \$13,268; August, \$13,922; September, \$12,487; October, \$17,113; November, \$14,782; December, \$22,318; Total, \$179,513.

That gives us an array of a group of figures which can be compared to determine how the sales of each month stand in relationship to those of every other month, as well as to the total for the year. However, the array is such that it does very little to facilitate the necessary comparison.

When we place the same group of figures in columnar arrangement, we readily see how much more easily and quickly we grasp the real situation. This simple comparison—that is, the columnar arrangement with the paragraph arrangement—serves, in itself, as a demonstration of the practical value of both arrangement and comparison. The columnar arrangement appears in Fig. A.

Of course everyone knows that the columnar arrangement is better from the standpoint of making comparisons, yet a moment or two spent studying the paragraph and then the column will help to fix the importance of arrangement in mind more firmly than it may have been before.

If so, it will help in recognizing advantageous arrangements in the future that might otherwise have been overlooked.

COMPARATIVE STATEMENT OF SALES BY MONTHS

Months	Sales
January	$ 9,620
February	8,932
March	11,741
April	14,284
May	22,412
June	18,634
July	13,268
August	13,922
September	12,487
October	17,113
November	14,782
December	22,318
Total	$179,513

FIG A

Now let us take exactly this same arrangement and add another column to show the percentage of each month's sales on the year's total. This will indicate how much the percentages help in revealing the relationship existing between the monthly sales, as well as between each month and the yearly total. The grasp of this relationship is, of course, the important point. The new arrangement appears in Fig. B.

Of course these simple illustrations are used merely to emphasize the fact that both *arrangement* and *percentages* are important factors in the comparison of figures. Even a brief study of each of the three groupings of the same figures will serve to bring out the point effectively.

Though every manager uses percentages to some extent, the probability is that every manager also can make better use of them than he now does. At any rate, it is well to *assume* that improvement is possible because that helps us to keep on the alert for betterments. When we are

receptively on the lookout for more profitable applications, we are practically sure to find them now and then.

The big point to keep in mind is that we want to get at *relationships* and that percentages help comparisons by making relationships more quickly and more impressively apparent.

COMPARATIVE STATEMENT OF SALES BY MONTHS

Month	Total sales for month	Per cent of year's total
January	$ 9,620	5 4
February	8,932	5 0
March	11,741	6 6
April	14,284	8 0
May.	22,412	12 5
June	18,634	10 4
July .	13,268	7 4
August	13,922	7 7
September	12,487	6 9
October	17,113	9 5
November	14,782	8 2
December	22,318	12 4
Total	$179 513	100 0

FIG B

SIMPLE CHARTS ALSO HELP

Simple charts also can be used with telling effect in many instances. A chart is nothing more than a *picture of relationships.* It proves helpful because the story it tells is more quickly grasped and more readily remembered.

The only real problem in charting is to know what charts can be used to advantage. When that is known, the way of making the chart either is not or will not long remain a problem. Observation alone probably will take care of it because any one who is thinking about charting a given set of figures will study the various charts he happens to see in trade papers and other publications, and soon find a suitable arrangement.

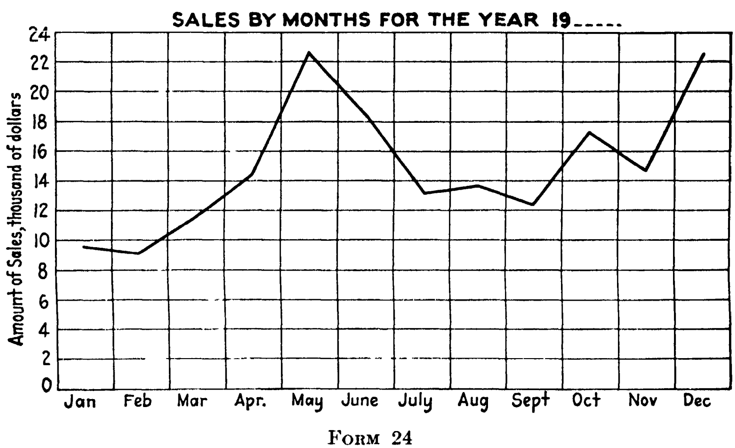
Various charting forms are available at practically all stationery stores, which suggests another way of finding a

suitable form for a given purpose. Books and courses on the subject, also, are available. An hour spent with a book from the public library may give all that is needed. Some may be justified in taking a course. Much necessarily depends upon how far the application of charts is to be carried.

The beginner usually obtains the best results by starting with a few figure-facts that seem especially important. Other applications will follow when need arises and practical use is apparent. Be sure to remember that charts, like figures, are valuable only to the extent of their being *used.*

The previously given record of monthly sales for one year will serve to give a clear idea of how a simple chart can help us *read* our figure-facts; that is, *see their relationship* most completely. It will show how the chart helps to carry the picture quickly and easily to the mind.

These figures can be charted in a number of ways. We will use one of the simplest charting forms which produces a graph as shown in Form 24.



FORM 24

One chart form, as above, can well be used to picture the monthly sales for a number of consecutive years. The solid line will serve for one year, a dotted line for another, a line of dashes for another, and a line of alter-

nating dots and dashes for still another. A few moments will do the work and a lot of helpful information will be revealed. Care must be used, of course, to avoid placing so many lines on one form that the picture would become blurred.

Many a merchant has studied such a picture of his own business and found inspiration for increasing his sales in the off months. Especially so when he used a separate chart for each year and pictured both the monthly sales and the percentage of each month's cost of doing business on that month's sales.

HOW GENERAL LEDGER ACCOUNTS ARE USED

As previously indicated, the selection of figure-facts that will give the greatest aid and guidance must be made to meet the specific needs of the individual business. We can gain much from a careful study of what others are doing, of course; but what we ourselves should do depends entirely upon what we ourselves can and will do *profitably*. Our study of what others are doing is helpful only to the extent that it assists us in determining what we ourselves *can do to advantage*.

This brings us again to the important consideration that *basic principles* are applicable to all stores, while the *detail of their application* necessarily varies according to the individuality of the store and the conditions under which it operates.

One of the *basic principles* is found in the fact that the major portion of our figures will be taken from our own carefully designed general ledger. That ledger is the most important record any business can have because it *analyzes* the entire business to reveal the most important information.

The general ledger is a *condensed* summary of the entire business by accounts. It is condensed because some of the accounts carry only totals, the details being handled through another division of the basic ledger. From the

standpoint of *information*, this plan presents the advantage of having *details in one place and totals in another*.

When the general ledger accounts are grouped properly according to the four great fundamental divisions of every business—assets, liabilities, incomes and expenses—and when the accounts or subdivisions under each are selected to meet the needs of the manager most helpfully, we are sure to have a good start in the use of figure-facts to increase both sales volume and profit volume.

In this connection it may be well to add that, generally speaking, the greater the number of accounts or subdivisions in the general ledger the more helpful the resulting information becomes. Separation is the essence of all analysis. Each account should therefore contain only items of like kind *specifically*, not generally, providing the resulting information can be put to practical use.

Consider a simple illustration: "Heat, Light and Power" is a commonly encountered caption for a general ledger account. Assuming that the business actually purchases all three of these elements, we readily see that analytic information or *specific comparison* calls for three separate accounts. It is the periodical comparison of like elements—heat with heat, light with light, and power with power—that shows quickly where possible savings can be made.

Furthermore, when the separate items are separately billed, as they usually are, the three accounts will involve no more posting effort than does the one. Look out for the "and" in any general ledger account. It indicates either that the account should be separated or that it might be better named.

"Miscellaneous" is another word that deserves watching. An account for miscellaneous or general expense is justified only when it contains no items that are worthy of separate watching. Such accounts frequently *bury* information which separate accounts would reveal easily and which might be put to good *profit-saving* use.

After being sure that the general ledger accounts are as completely analytic as they should be, consider:

1. How easy and simple to array the amounts accumulated in the various accounts so as to make each monthly total stand out clearly in comparison with other like totals.
2. How easy and simple to drop in *cumulative* totals by adding each succeeding monthly total to the corresponding total for the preceding portion of the year and thus tell the *whole story to date* for each individual item of helpful information.
3. How easy and simple to include percentages and make the entire record reveal its information more quickly and more completely.

COMPARATIVE RECORDS ARE EASILY MADE

Nothing elaborate is required in obtaining any of the above helps. Good comparative statements can be made easily on ordinary column-ruled sheets without printed headings, but there occasionally are instances for which a specially prepared form is well worth while.

A particularly satisfactory arrangement for ordinary purposes is to use two lines of the record sheet for each item of information. The monthly totals are then placed on the upper line, while the lower will record the cumulative totals.

Usually, there is no advantage in recording the cents of comparative figure-facts. Unless specifically needed, the cents should therefore be omitted, thus leaving the cents column available for recording percentages.

To see clearly how very simple such a helpful record really is, let us look over a portion of the monthly sales figures given in the preceding illustrations, arranged on an ordinary column sheet and including both cumulative totals and percentages. This arrangement is shown in Form 25.

This illustration with only five months of the record will suffice to show how it works. The record in actual use will be extended, of course, to include the twelve

months. An additional column, also, should be included at the extreme right for the yearly total. A form with thirteen columns is therefore ideal for this type of comparative record.

The monthly amounts and cumulative totals should be entered at the close of each month. The percentages obviously cannot be figured until the close of the year because they are based on the year's total.

We have shown the cumulative totals in *italics* to differentiate them from the regular monthly totals. In actual practice it is helpful to enter the cumulative totals

Comparative Record of Sales by Months

Item	January		February		March		April		May	
	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent
Year	9 620	5 4	8,932	5 0	11,741	6.6	14,282	8 0	22,412	12 5
Totals			*18,552*	*10 3*	*30,293*	*16.9*	*44,577*	*24 8*	*66,989*	*36.2*

FORM 25.

in a different color of ink so they will be readily distinguished from the other figures.

As only two lines of the sheet are used for each year, the figures for a number of years are recorded on a single page. The increasing value of the comparison, year after year, is obvious. The relationship between years, both by individual months and by corresponding portions of years, is seen at a glance. This will go a long way toward showing *where and when* improvements are possible.

A similar statement covering the various divisions of the cost of doing business is particularly helpful. The percentages in this statement are entered at the close of each month because they are based on the net sales for the month. These will help to make a comprehensive and meaningful *analysis of expense* toward developing *more profit through better use of figure-facts.*

HOW THE BUDGET PLAYS ITS PART

No process of using figure-facts can be complete without bringing the *budget* into active play. Indeed, the budget may well be cast as a *star performer*, fully entitled to as much of the *spotlight* as are the figure-facts themselves.

What we need to do is to bring together the *planned* figures of the budget with the corresponding *figure-facts* of actual accomplishment. This is, of course, for the sole purpose of facilitating the most helpful comparison and study.

In this connection it will prove especially helpful to review Chap. VIII which discusses the proper construction and profitable use of the expense budget. Every principle involved applies equally well, of course, to every phase of *planning* as stated in figures.

An essential point is brought out in the second portion of the two-fold purpose of the expense budget: *To serve as a basis for comparing accomplishment with aim, thereby aiding in the improvement of both the worthiness of our profit-target and the trueness of our commercial marksmanship.*

Obviously, then, our purpose must be to bring together, for the most advantageous comparison, the *figure-estimates* of planning with the *figure-facts* of accomplishment. Without that comparison, planned figures of any kind have but little constructive value.

A convenient form which greatly facilitates the making of the necessary comparison is shown in Form 26. It provides for an effective comparison between each planned figure (what was *budgeted* or *planned*) and the corresponding actual figure (what was *accomplished*). Such comparison, when carefully *studied*, is bound to help in finding the way to produce *more profit* through *increased income* and *decreased outlay*.

Such a statement is easily made for any merchandise division or department in which a separate sales record is kept, as well as for the store as a whole. All of the items pertaining to inventory and stock can be recorded at either cost or retail prices.

When these merchandise items are taken at cost, Total Merchandise Handled During Period less Inventory at Close of Period must equal Amount of Stock Shortages plus Cost of Goods Sold. When taken at retail, Net Sales will be substituted for Cost of Goods Sold in this equation.

The longer the process of making comparisons is continued studiously, the better will it be made to meet the

Comparative Statement for the Month of ________________________________ **19**__

Covering: ____

Item	This month							This year to date						
	Amounts		Per cent		Variation			Amounts		Per cent		Variation		
	Planned	Actual	Pl	Ac	Amount	+ -	Per cent	Planned	Actual	Pl	Ac	Amount	+ -	Per cent

FORM 26.—Especially helpful will a form of this kind be found in making what may well be termed a "Comparative Operation Summary," which would include the following items

1. Inventory at beginning of period
2. Merchandise received into stock during period.
3. Total merchandise handled during period.
4. Inventory at close of period.
5. Amount of stock shortages.
6. Gross sales.
7. Returns and allowances.
8. Net sales.
9. Cost of goods sold.
10. Total mark-up on goods sold
11. Price reductions (mark-downs)
12. Margin (realized make-up)
13. Cost of doing business
14. Profit.

particular needs of the individual business; and the more clearly will it be seen that planning and controlling work hand-in-hand to make acting produce the *maximum profit volume;* the result of *maximum sales with minimum stocks and maximum margins with minimum costs.*

A careful review of Chap. I and a particularly careful study of the "basic outline of a profit-making program," as therein presented, will be found especially helpful at

this time. When that outline is found to become more and more meaningful, you may be sure that the chief purpose of this book is being accomplished.

Finally, let us be ever mindful of the fact that the best results are to be obtained only when profit is gaged by lines in planning and known by lines in accomplishment. In this connection a restudy of Chaps. IX and X is especially recommended.

CHAPTER XVI

HIGHLIGHTS IN BUYING

The great highlight in buying is based on supplying consumer demand which either exists or can, with reasonable effort, be made to exist. The more the customer's viewpoint is used as the determining factor in buying, the better will be the result in profitable selling. In effect, retailing starts when production starts and ends when the goods are consumed. Wholesaling and retailing stand as one operation. Effective cooperation between them is essential in obtaining best results.

When the business operates with time cost and effort cost percentages, every purchase is based on a carefully estimated length of time required to sell the goods. Both quantity and price are considered especially from that standpoint The process provides an effective safety valve, regardless of whether the predominating tendency is toward speculative or conservative merchandising.

Truly, improvement is sure to follow when repeated study of the "basic outline" makes it increasingly clear that profitable retail store management depends absolutely upon the *character* and *extent* and *harmonious relationship* of planning, acting and controlling.

Such increasing clearness indicates recognition of the *how* and the *why* of it all. It proves that there is a growing understanding of the management principles presented and discussed in this book, the basic principles that underlie and lead to *more dollars in retailing.*

That recognition causes us to become more and more impressed with the fact that the three basic essentials in the profit-producing process are closely *interrelated*—that they *interact* all the time—that each helps the others.

In this respect, the operation of the store may well be compared with the operation of the mind from which accomplishment of every kind must spring. The mind,

like the store, functions as a whole and also has three basic divisions. These are known as "feeling" (emotion), "thinking" (reflection) and "willing" (determination).

Thinking is the great central function of the mind, but our thinking is influenced directly by the other two functions, that is, by our emotion (feeling) and our determination (willing). Furthermore, one of these basic mental functions is bound to predominate at any given moment.

Just so with the operation of the store. Acting (buying and selling) is the great central function, but its effectiveness is influenced directly by the planning and controlling. Also, one of the three basic essentials is sure to predominate in any phase of store operation.

It all amounts to this: The more intensive the feeling and willing, the more effective the thinking; and the more intensive the planning and controlling, the more effective and profitable the direct activities of the business, buying and selling.

That is why the chief portion of our presentation and discussion is devoted to the first and third essentials, as well as why each chapter also is a discussion of profitable buying and selling, though it may be so indirectly.

We might even say that each chapter is a discussion of profitable selling because, in the last analysis, successful retailing means *profitable selling at retail,* nothing more and nothing less. Everything else is incidental, solely for the purpose of making *profitable selling* possible.

With this thought in mind, let us consider buying and selling a bit more definitely; not as to *details,* however, but merely as to *highlights.* The present chapter is devoted more particularly to the "highlights in buying," the following one to the "highlights in selling."

In keeping with the general purpose of this book, the discussion is carried on from the viewpoint of the *manager,* the *directing mind,* rather than from the viewpoint of the buyer or the salesman. These essential activities are sure to develop more effectively in proportion as more attention is given to the managerial phase.

BUYING FOR DEMAND

Preceding chapters have emphasized the fact that the great highlight of successful buying lies in establishing and maintaining a sound relationship between stocks and sales, that is, between buying and selling. It resolves itself clearly into buying for consumer demand; demand that either exists or can, with reasonable effort, be made to exist.

The basic outline presents five leading questions that apply to every purchase: What, when, where, how much, and at what price? With the possible exception of where, each of these is to be answered squarely from the standpoint of the customer; and even this question comes finally to the same point.

Clearly, therefore, the more the customer viewpoint is made the determining factor in the activity of buying, the better will be the result in profitable sales. It never is what the buyer thinks, but what the customer thinks or *is made to think* that determines whether a purchase is wise or otherwise, whether or not it culminates in profitable sales.

The question of where? (where to buy?) is especially important because the best results are obtained when production and distribution aim in unison at the same target of consumer demand. After all, manufacturing, wholesaling, and retailing are but different phases of the same fundamental function of all business which is, of course, to *develop and supply* consumer demand.

At least some investigators have reached the conclusion that the strength of mail-order, chain store, and exclusive house-to-house retailing lies in the relative weakness of the individual retailer. The conclusion becomes impressively meaningful when we consider manufacturing and wholesaling as essential to retailing through individually owned and operated stores; when we remember that retailing starts when production starts and ends when the goods are used or consumed.

The individual retailer can be permanently successful only in proportion as every step in the procedure is efficient

and profitable, and the consumer is satisfied. A particularly close relationship exists between the wholesaler and the individual retailer. In fact, the one cannot exist without the other. The future of both depends upon their working together efficiently.

Wholesaling and retailing stand, in reality, as one operation; just as buying and selling stand as one operation. The real competition of one is the real competition of the other. This is an important consideration because competition finds and fills spots of inefficiency just as water finds and fills the low spots.

Numerous elements in the ideal situation undoubtedly are beyond the power of the individual retailer either to influence or to control. Nevertheless, it is well for the retailer to keep the ideal clearly in mind because that will help to bring about the possible improvements. This applies equally well, of course, to the wholesaler.

To whatever extent the wholesaler and retailer each has a wholesome viewpoint of his own, and works in accordance with the other's point of view, the position of both is strong. Likewise, to whatever extent either forgets his dependance upon the other, the position of both is weak. This statement does not lose sight of the fact that unintelligent competition between wholesalers and unintelligent competition between retailers is a big speck in the ointment. But that situation will tend to adjust itself when the wholesaler thinks less about the competing wholesaler and more about the cooperating retailer, and the retailer thinks less about the competing retailer and more about the cooperating wholesaler; in other words, when wholesaler and retailer work together more effectively.

Profitable cooperation between wholesaler and retailer not only is possible, but actually has been and is being accomplished in many instances. More of it is sure to follow. Both manufacturers and wholesalers are realizing more clearly than ever before that their real customer is not the one to whom they sell *directly*, but the one to whom they sell *indirectly*, the consumer who is served through

the retailer. They recognize the retailer more distinctly as the "terminal station," an essential part of the system.

The retailer, in turn, is realizing more clearly than ever before that he is the purchasing agent for his customers and possible customers. He therefore determines his *where*-to-buy largely on the basis of the effective cooperation he can get in developing and supplying consumer demand. He concentrates his buying as much as possible with carefully selected concerns because he knows that scattered buying leads to scattered and ineffective cooperation.

His more immediate guiding star is, of course, in his buying and selling program, his planning and controlling. He handles his stock in the greatest consistent number of divisions to improve both his *planning* and his *controlling;* to provide a better measure of his efficiency as purchasing agent and to help him improve it.

Suitable limitation of stocks and consistent assortments of merchandise, based on effective consumer demand as estimated in the sales quotas and checked by the stock records, stand as the foundation of his buying activities. Sound retail buying never depends upon the information and judgment of the wholesaler, but the wise retailer always makes practical *use* of them.

BUYING FOR PRICE

The basic outline shows that "At what price?" is the last consideration in any purchase. This simply means, of course, that no price can be right until the other questions pertaining to the purchase are answered successfully.

Price necessarily is a comparative factor. While merchandise and price are the chief elements in the comparison, they are by no means the only elements. Indeed, it may prove profitable in the long run to pay more for identical merchandise to a concern that can and will make up for the difference in all that the word *service* implies; in ability and dependable willingness to assist in the great merchandising job of *developing* and *supplying* consumer demand.

The important point involved is well illustrated by the keen business men who work in close cooperation with a carefully selected banker. They not only concentrate their business as much as possible, but some of them are known occasionally to borrow money when it is not needed. They do this on the theory that the apparently unnecessary payment of interest is really necessary in order to keep in touch and to strengthen their credit for possible emergency. This type of *forward-looking* may be as effective in buying as in banking.

A close relationship may be found between quantity and price; between "How much?" and "At what price?" The influence remains the same whether the price be affected directly or through an indirect agency such as premium, discount or dating.

When the factors of time cost and effort cost are understood thoroughly and applied properly, we have a decidedly useable basis for determining whether the purchase of a larger quantity for the sake of better price (direct or indirect) is profitable. Every purchase is then made on the basis of a carefully estimated *length of time* required to sell the goods, and the price element is considered from that standpoint.

To some extent, at least, the recognition and application of these factors (time cost and effort cost), also, will influence what is more generally looked upon as *speculative* buying; that is, buying a larger-than-needed quantity because of belief that the price will rise, or a smaller-than-needed quantity because of belief that the price will fall.

While every purchase undoubtedly is influenced by both an estimate of demand and a consideration of price, one or the other of these influences is reasonably sure to predominate. A purchase made on the basis of meeting a carefully estimated demand, might be termed a *merchandising* purchase. When made primarily on the basis of price, it becomes a *speculative* purchase to that extent.

Some merchants are by nature, as it seems, more speculatively inclined than others. Their tendency is to think

more particularly in terms of *better buying* than *better selling*. Though they may never have figured it out that way, the speculative tendency looks more for easy money, than for merchandising profit. The tendency manifests itself more particularly, of course, in times of rapidly rising or rapidly falling prices.

Speculation also is in operation, however, at any time that an other-than-needed quantity is bought primarily to get a price advantage. While there are no definite statistics (recorded experiences) to prove the point, the general indication is that speculative merchandising loses considerably more than it makes. As a class, permanently successful retailers aim constantly at *merchandising profit*. They do not try to beat the market. They buy for *demand*, rather than for *price*.

The big point to remember in this connection is that carefully established sales quotas and stock limits serve as the best known guide and safety valve regardless of whether the predominating tendency is toward speculative or conservative merchandising.

A MATTER OF VIEWPOINT

Of course we never can get away from the fact that there is some degree of risk in every purchase. Perhaps this element of risk might be termed speculation without departing very far from the truth, but it will prove helpful to consider the question more from the angle of viewpoint or mental attitude.

In fact, the classification of purchases into speculative and merchandising is one that does not always stay put. Considerable evidence exists to indicate that at least some of us transfer more or less easily from one class to the other through the force of existing conditions. The influence of "everybody is doing it" is not easily escaped, you know. Indeed, the transfer occasionally is from one extreme to the other.

For example, a rising market and the resulting boom of business seems always to develop a strong current of

speculative tendency that has an effective way of carrying one along. On the other hand, a declining market and the resulting balk of business seems equally certain to develop a strong current in the opposite direction.

This latter influence probably has a wholesome tendency to place the survivors more permanently on a footing of conservative merchandising, but it also goes to extremes at times and thereby extends beyond the bounds of sound conservatism and becomes *loss-preventing* speculation.

In other words, and as previously indicated, buying less than is demanded by sound merchandising, through fear of declining price, is quite as speculative as buying more than is demanded by sound merchandising, through expectation of rising price. The possibility of loss in the one instance is simply based on declining value of goods; in the other, on not making sales that might have been made. The effect on *profit volume* remains the same in either case.

Since the element of risk or speculation, if you care to use that word, cannot be eliminated entirely, the important basic difference between *speculative* merchandising and *conservative* merchandising may well be said to be in the *viewpoint* or *mental attitude* of the merchant. In the one case the predominating motive tends toward trying to beat the market; in the other, toward striving to meet consumer demand.

Existing conditions are bound to wield their influence in either case. That is why no profit-making program can be followed *inflexibly*. The program necessarily is varied to meet the demands of changing conditions, *external influences* particularly. The important point to remember is that the entire program must be adapted to existing conditions if the best results are to be obtained.

Sales quotas, stock limits, mark-ups, and expense budgets, all are influenced by *consumer demand*, both the *existing* demand and the demand which can be *developed* with reasonable effort; and all must be considered in adjust-

ing the program, aiming constantly at the finished product, *profit volume.*

The merchant who operates with a carefully planned and properly adapted profit-making program is fairly sure to buy on the basis of *sound merchandising*, regardless of whether his predominating tendency or natural bent be *speculative* or *conservative.* He will be guided to buying on the basis of *demand*, rather than on the basis of *price.*

Incidental to the above discussion, it is well to bear in mind that money made through price advances is not a *merchandising profit.* Such a gain should never be permitted, therefore, to enter the Profit account or to swell the profit of the business in any way. Many are the businesses subjected to unnecessary grief through after-the-war mark-downs because this simple truth was overlooked.

Since competition forces the merchant to follow the market more or less closely in times of declining prices, it stands to reason that he should do the same in times of advancing prices. In other words, retail prices should be based on *replacement value* rather than on what the goods may actually have cost.

A practical way to handle the situation is through a separate account which might be headed Inventory Value Adjustment. When the mark-up is increased because of a rising market, the advance in the wholesale price is credited to this account and charged to the inventory or merchandise account.

Then, when the inevitable mark-down comes, the reduction in the wholesale price is charged to Inventory Value Adjustment and credited to the Inventory or Merchandise account. In this way, the wholesale price variation is kept out of the *merchandising profit*, as it should be.

THE INFLUENCE OF POLICY

One of the very first principles in good merchandising is to have a clearly defined conception of the *kind* or *class* of customers the store aims chiefly to serve. This conception

automatically establishes one phase of *policy* which necessarily influences the buying.

A careful analysis of almost any store will show that the major portion of its business is done with customers who are somewhat similar in their general needs and preferences. These people constitute what may well be called the store's chief customer group. They are not exactly alike, of course, but there are certain predominating characteristics which may be recognized more or less clearly throughout the group.

This remains true regardless of whether the store is organized and operated with a definite view to dealing principally with a carefully studied and clearly recognized group of customers. The situation simply tends to develop in that way because people have a distinct inclination to trade where their needs and preferences are most completely met; in short, where they are *best satisfied.*

In fact, the group characteristics are closely related to and probably grow directly out of the factors that influence the satisfaction of these customers, and therefore determine their mental attitude toward the store. These satisfaction factors and, consequently, the group characteristics are clearly dependent upon customer preferences. Chief among these are preference as to personal taste, kind or atmosphere of store, service and price.

Obviously, the buyer who clearly recognizes and understands the predominant characteristics of the store's chief customer group is in better position to buy satisfactorily for those customers as a class, as well as for individual customers. Furthermore, the store that definitely fashions its policy to meet the preferences or satisfaction factors of the particular group of people it is in best position to serve, has a decided advantage in developing and maintaining its business.

An extreme illustration is found in contrasting the five and ten cent store with the exclusive specialty shop. The appeal of the former is based directly on price; of the latter, on quality, style and service. The chief customer group of

each is decidedly different. Between these or any other extremes, certain degrees of variation are found. Some one of these will apply to any store that is less extreme in either direction.

A clearly outstanding fact is that permanently successful merchants shape their store policies according to the needs and preferences of a specific class of customers and possible customers. In a general way, the appeal is either primarily on *price* or primarily on *quality, style and service.* This does not mean that either appeal neglects the other, but merely that one or the other *predominates.*

An excellent illustration of the point is noticed in the current advertisement of a high-class and exceptionally successful retail store. The trade mark of this store is labeled, "The Sign of Quality." The advertisement is headed, "Quality is always first at Wolferman's but price is by no means ignored!"

The continued success of this store undoubtedly is based on the fact that it lives up to its advertised policy and has sufficient information to carry it out *profitably.* Quality, as finally reflected in *customer satisfaction,* is the first consideration in its buying, as well as in its selling; but *profit* is by no means ignored!

This incident brings to mind another store of the same kind which, some years ago, vigorously waved the banner of "We cater to those who want the best." That store failed both because it did not sufficiently live up to its advertised policy and because it did not have sufficient information to carry out such a policy *at a profit.*

Two things always are necessary: First, the policy of the store must be suited to the characteristics of its chief customer group; second, the activities of the business must all be in consistent conformity with that policy.

COOPERATIVE BUYING

A complete discussion of this far-reaching subject is obviously out of the question. We will attempt merely

to mention a few of the things that seem worthy of more consideration than appears ordinarily to be given them.

Developments indicate quite clearly that many individual retailers are readily attracted to the *promise* of cooperative buying, probably because they feel so keenly that something must be done to counteract the buying power of mass distribution; to place the individual retailer on an equal price footing with his mass-distribution competition.

When cooperative buying accomplishes that purpose, it certainly is tremendously worth while. There can be no question about that. Nor can there be any question about cooperative buying being worth while to any extent that it may bring a price advantage without at the same time bringing off-setting disadvantages in other directions that are equal to or greater than the advantage of the lower price obtained.

The situation needs to be studied, of course, from the viewpoint of long-run results; and the extent to which the interests of the wholesaler and retailer are identical and inseparable, is obviously an important point in the consideration. There may be such a thing as killing "the goose that lays the golden egg."

Buying direct from the manufacturer embodies some elements that are closely related to some of the phases of cooperative buying. A conversation overheard between two men whom we will designate as Y and Z may be worth thinking about. It ran, in essence, like this:

Y: "I buy everything that I possibly can, direct from the manufacturer."

Z: "Of course you consider that a wise policy."

Y: "Certainly."

Z: "Could your business exist without the wholesaler?"

Y: "No, of course not, but I have to buy where I can buy to the best advantage."

Z: "No doubt about that. The only question is whether buying direct from the manufacturer really is to your best advantage."

Y: "Well, every dollar saved is a dollar made."

Z: "That's true, too. The only question on that score is whether the dollar really is *saved*, in the long run."

Y: "Just what are you driving at?"

Z: "Let me put it in the form of a question. Have you ever stopped to consider that enough direct buying might be done to cripple the wholesaler so that he cannot render the kind of service that you must have to keep your business going?"

Since that question leads to a point which every retailer must consider for himself, whether approached from the viewpoint of individual or cooperative buying, there is no object in quoting the conversation further.

But a somewhat similar conversation might well be carried on between Z and either a manufacturer or wholesaler, in which Z would turn that last question to: "Have you ever stopped to consider the real extent to which the future of your business depends upon the success of individual retailers?"

So it all gets back to the fundamental question of the extent to which the interests of the retailer and the wholesaler are inseparable, and interdependent. To whatever extent they are, the only permanent solution of the problem lies obviously in more effective cooperation between wholesalers and retailers. That may be another place where "united we stand, divided we fall" applies most tellingly.

One of the undoubtedly important phases of cooperative buying pertains to the amount of time it requires. Since time is money, we always are confronted with the question of whether our time is being invested to the best possible advantage in view of ultimate results—long-run results—which are the results that really count for most.

Especially important is this phase of the situation because the new day in retailing undoubtedly demands more study oi modern methods of management and control on the part of the individual retailer. This point is discussed at some length in our introduction which, it is hoped, will be read again.

Several retailers who have been practicing cooperative buying a year or more, have been asked to outline the

advantages and disadvantages in the practice, based on their experience. A significant point is found in the speed with which the majority reached the conclusion that they would be better off if they had spent the time in studying how to manage and control their own business to better advantage.

This, however, should not be accepted as a guide for others. Each must reach his own conclusion. It merely suggests the advisability of taking the time for a thorough analysis, making one list of advantages and another list of disadvantages. When that is done with an absolutely open mind, the resulting conclusion will be fairly sure to be the best one possible for the man who makes the analysis.

The thorough student of his business will keep his lists and revise them whenever new ideas come to him, either through independent thinking, reading, observation, or discussion with fellow merchants and others.

CHAPTER XVII

HIGHLIGHTS IN SELLING

Everything that is done in and for the store is a part of its selling. We have indirect as well as direct selling, and the former often is of greater importance. Location is the natural resource of the store; sales and profit result from the influences thereon. The most profitable selling effort combines displaying, advertising and personal contacts to the best advantage.

The important relationship of preparation to *doing* indicates the need for practical training. Preparation consists in learning to make better use of what already is known, as well as to learn the new. Interest is the motive power of human accomplishment. Well conducted store meetings afford an excellent opportunity for developing interest and guiding the resulting effort into the most productive channels.

After buying, selling! While buying, selling! Before buying, selling! Always, selling!

In fact, when we consider the word in its broadest sense, we readily see that not only buying, but everything that is done in and for the store is a phase of that store's *selling.* The sales of the store really stand as the sum and substance of *all* of the store's activities, in much the same way as the harvest stands as the sum and substance of *all* of the farm's activities.

Sales merely are the *culmination* of it all, yes, *all!* That is an obvious fact, of course; but one that deserves a lot of careful consideration. Perhaps the greatest fundamental factor in permanently successful selling is to recognize the entire store and all that pertains to it as belonging to and influencing the *selling* process; in fact, as *being* the selling process.

With that recognition clearly established, we are practically sure to bear in mind that sweeping the floor and

washing the windows really are factors in the store's *salesmanship*, just as are the buying and displaying of merchandise, the wrapping and delivering of packages, the personal contact work, and everything else that in any way pertains to the store. This even includes what employer and employes do outside of business hours, and how they do it.

INDIRECT AND DIRECT SELLING EFFORT

We have no word that covers the real situation exactly. Selling usually is considered in terms of the immediate or direct selling effort, but there can be no doubt about the all-inclusiveness of its broadest meaning.

Perhaps the best mental picture is obtained by considering the entire business as a *selling* organization, and all of the store's activities as separated into *indirect* selling effort and *direct* selling effort.

This conception is the one that reveals *sales* as the culmination of *all* of the store's activities in much the same way as the *harvest* is the culmination of *all* of the farm's activities. We know that there can be no harvest without soil, preparation of the soil, selection of seed, planting of seed, cultivation and, as the process continues, *fertilization*.

How similar with the store! The location of the store may be compared with the soil of the farm. Some soils are better than others; some locations are better than others. Some farmers thrive on a given soil; others are starved out. Some merchants thrive in a given location; others are closed out.

Some soils will produce fairly well, for a time, with indifferent farming methods; some locations will produce fairly well, for a time, with indifferent merchandising methods. Ultimate farming results always depend upon what is done with the soil; ultimate merchandising results always depend upon what is done with the location.

Almost any soil will produce something; almost any location will produce some measure of business. What

really counts is the *extent* to which a given soil or location is made to *produce;* and that invariably depends upon the character and extent of the activities applied thereto.

Consider the situation from another viewpoint: All that is ours "to have and to hold" is the result of a combination of natural resources and man's influence thereon; what man has done with what nature has provided. Applied to the store, location (potential consumer demand) stands as the natural resource; all else is either indirect or direct *selling*, what is done with the location.

Indeed, the selection of a suitable location is in itself one of the most important phases of indirect selling effort; but that goes beyond the scope of our present discussion. What we are now interested in more directly, is what is being done and what can be done with the location already established; how to make the *location* yield the maximum of profit volume.

Our "basic outline" separates the direct selling activities into three fundamental divisions: Displaying, advertising and personal contacts. Let us turn our thinking briefly to each of these.

DISPLAYING

Assuming that the buying function has been performed properly so the goods themselves are right and the retail price is right, the next great step in the merchandising process is to display the goods effectively, that is, to advantage.

Scientific investigators tell us that the nerves of the human eye are about twenty times as strong and active as are the nerves of the human ear. This explains why we ordinarily remember what we have *seen*, more readily than what we have *heard*. Most of us get mental impressions through the eye much more easily and quickly and clearly than by any other means. So we have this important principle in merchandising: *The appeal through the eye is strongest.*

Investigators also have estimated that between eighty and ninety per cent of all retail sales are made through display. The value of their estimate lies not in the accuracy of the percentage, but in guiding our thinking along lines that will prompt us to make the best possible use of this important factor in selling, *display*.

A close relationship obviously exists between the arrangement or layout of the store and the display of its merchandise. In fact, the display of merchandise never can be at its best unless the arrangement of the store also is at its best.

Every store is confronted with its own individual problems in arrangement and display. This fact makes it impracticable to follow a standardized rule; but the great central idea, always, is to recognize the profit making lines and give them every possible advantage in both arrangement and display.

A sincere desire for improvement is more helpful than specific directions ever can be. The manager who has this desire is sure to study his own case and be ever on the alert for helpful ideas that he can put to good use in his own store. He thereby, also, develops his *ability* to recognize and judge possible improvements.

Keen, analytic observation is, after all, the best known road to betterment. Such observation springs directly from interest or alertness, and develops the power to reach sound conclusions. So the first essential is to develop a sufficient appreciation of the practical value of arrangement and display to keep interest and alertness always on the job.

A bit of play acting now and then is especially helpful. The manager who enters his store occasionally under the assumption that he is a prospective customer (preferably one who never before has seen the place) is fairly sure to observe conditions that might never be noticed while entering the store in the mental attitude of the proprietor or manager.

Another excellent practice is to consult the employes now and then. A special store meeting may be held to

discuss the question of whether improvements in arrangement, or display, or both, can and should be made. Of course such meetings must be handled so as to prevent the development of a supercritical attitude on the part of employes, but any manager can do that.

The policy of inviting constructive suggestions from employes is generally worth while, not only because some thoroughly helpful ideas may be developed thereby, but also because the practice stimulates individual *thinking* which goes a long way toward making employes more efficient workers.

When employes realize that their suggestions are appreciated and recognized as worthy of sincere consideration by the manager, they are reasonably sure to work with keener interest and to better advantage. This applies to other phases of the business, of course, as well as to arrangement and display.

Selling through display has been called "wageless selling" and "automatic selling," and "silent selling," terms that help to indicate its value and importance when effectively applied. Display always is on the job, and never is neutral; it either attracts people or repels them. This remains true whether the display is in the window, within the store, or incidental to personal salesmanship.

ADVERTISING

One of the highlights in advertising was mentioned in Chap. VIII, that its value is not to be measured by what it *costs*, but by what it *accomplishes*. There probably is no phase of the subject which needs to be more constantly kept in mind. Not, however, with a view to reducing the amount to be spent for advertising, but with a view to *increasing the accomplishment.*

The profit-making program, as presented and discussed in preceding chapters, involves the making of an expense budget which includes determining upon the amount to be invested in advertising. That is the first step; the next is to invest that amount to the best possible advantage.

To obtain the best results, both of these steps must be based directly upon the specific needs of the individual store.

All that is said at the beginning of this chapter with reference to *selling,* applies equally well to that particular phase of selling which is designated as *advertising.* We ordinarily use the word *advertising* as pertaining to the *direct* publicity of the store, yet the fact remains that everything that is in any way related to the store is a phase of its *message to the public.*

Indeed, the store's *indirect* publicity is of far greater importance than its *direct* publicity. No one has ever invented a form of advertising that means anything like as much to the permanent success of the business as does the *satisfaction of its customers.*

Without in any way detracting from the tremendous importance of what is in an advertisement, we must realize that the most important part of all advertising is what is back of it.

That is why successful advertising necessarily *harmonizes* with the store as a whole. People get a certain impression of the store through its advertising, though they may not definitely recognize the fact. Unless the store fully measures up to that impression, the ultimate effect of the advertising is harmful rather than helpful.

Every store needs a definite advertising policy that fits right in with its general merchandising policy. Harmonization is the first essential because advertising is but a cog in the wheel of merchandising. In the last analysis, advertising is nothing more than a means for broadcasting the character of the store and extending its influence.

Another important highlight is to remember that every advertisement has a definite mission to perform, and to make sure that this mission is clearly in mind before the advertisement is prepared. When we write a letter, we want to know first of all just what that letter is to accomplish. It is well to consider each advertisement as a letter that is to go to a great number of people.

With that viewpoint, we are sure to bear in mind that the greater the number of people a message is to reach, the greater the need for making sure that the message is clearly stated; that the advertisement really is capable of accomplishing its purpose. The outstanding trend in modern advertising is to use more care in preparation, and to apply more tests for determining whether or not it is hitting the mark.

The smaller advertiser cannot, of course, apply such tests as do national advertisers and some of the large stores; but every advertiser can, before preparing any ad, write down his answer to this all-important question: *Just what is this advertisement to accomplish?*

With that answer clearly before him, and remembering always that what counts is not what the advertiser thinks, but what the advertisement causes *prospective customers to think*, the chances for producing effective advertising are generally better that good.

Once the question was: Does advertising pay? Now the question is: *How can advertising be made to pay?*

PERSONAL CONTACTS

We come now to the last of the three fundamental divisions of the direct selling activities—the *personal contact* work—the portion of the merchandising process generally designated as *selling.*

Personal selling often is mentioned as the most important function of the store. This probably is due to the fact that the results are more readily and more accurately measured than those of other functions. The results are are more *visible.* A sales record always is an *impressive* document.

Consider this quotation from an excellent book on retail selling: "Selling is the realization of anticipated results. Selling produces the money that keeps the business running. Selling supplies the funds for rent, taxes, and other costs of business. Selling is the most important thing that any store does."

That statement is sound, of course, when we interpret the word *selling* in terms of all inclusiveness, when it embodies everything that is done in and for the business. Personal selling alone is but an essential element in the profit-making program. Its continued success depends as much upon the other functions of the store as upon its own efficiency.

But this consideration detracts in no way from the *importance* of the personal selling. There can be no *over* emphasis on personal selling unless there is *under*emphasis on other phases of the store's operation. Continued success always depends upon the extent to which the entire organization is made to function *harmoniously.*

When we undertake the selection of the most important function in any business, we must go to the *source* function —the *determining* function—*management.* As applied to the personal contact of employes with the public, the manager can hire and fire, or he can hire and inspire. The latter procedure is an essential of permanently successful personal selling.

The old question of whether a salesman is born or made, is fairly well settled. Practically everyone now realizes that he is *both.* The salesman, like everyone else, is born with a certain *capacity, his natural endowment.* What is accomplished with that *capacity* depends directly upon education, *training.*

The manager can select and hire capacity. To some extent, of course, he can select and hire *trained* capacity; but he always must *supply* the training needed to fit the selected capacity properly into the specific needs of his own individual business.

PREPARATION AND DOING

Training is *preparation,* nothing more, nothing less. When we stop to consider the relative importance as between being *prepared* for a given job and *doing* that job, we readily see why *suitable training* becomes increas-

ingly necessary in successful merchandising. Training (preparation) is a really *big word* in the future of retailing.

Much already has been accomplished in the training of sales forces, especially in the large stores; yet the possibilities in practical training show scarcely a scratch on the surface. Since necessity is the mother of invention, we may expect rapid development in suitable training plans and practices, especially in those that will meet the needs of the smaller stores.

But no manager can afford to *wait* for such developments. Suitable preparation is the outstanding high light in personal selling, and every manager can do a good job of training *now*. Every store can hold regular sales meetings where the sales quotas and means for their accomplishment will be discussed.

Every manager knows that the great fundamental need is *interest in the job*, in what is to be *accomplished*. Every manager knows, too, that interest develops with *understanding;* and that understanding develops with *thinking*. The prime purpose of the successful sales meeting is, therefore, to *stimulate and encourage thinking*.

Nothing stimulates thinking more quickly than well-guided *discussion;* nothing encourages thinking more surely than *respectful consideration* of what is said. Let the sales meetings be *think-fests*, rather than *lecture courses*. The more talking done by the *sales people*, the more helpful the *sales meetings*. The big job of the manager is to *guide* the discussions and keep them from becoming *gab-fests*, and to give the always necessary *respectful consideration*.

When the manager is thoroughly imbued with the necessity for and the practical value of *suitable preparation*, his ingenuity will find the means for carrying on successfully. He certainly will strive to make those who present the merchandise to prospective customers have as complete an *understanding* and *appreciation* of that merchandise as does the one who bought it.

TWOFOLD NATURE OF PREPARATION

Preparation embodies two fundamental phases: Learning something *new* that can be *used to advantage*, and learning to make *better use* of what already is known. The latter is by many odds of greater importance because none of us completely practice what we preach; that is, we *know* better than we *do*.

Most any employe can make an excellent list of the necessary qualifications for success in the job. Most any employer can make an excellent list of the necessary qualifications for successful management. In either case, indeed, it is all summed up in just two words, *ability* and *dependability;* and the core of it all is *interest.*

Interest is the motive power of human accomplishment. Interest begets all other success qualities. Interest prompts us to learn more and to make better use of what we already know; and that learning, in turn, develops our interest. Constructive thinking begets wholesome interest.

Routine is the arch enemy of interest. "Deadly routine" is a meaningful expression. Routine is necessary in the store, as in every other phase of human endeavor. Routine discharges the human battery, and successful training (*continued preparation*) serves as a generator that does the necessary *recharging.* No wonder training is becoming more and more clearly and generally recognized as an essential in retailing.

Learning something new, such as new merchandise, requires a certain degree of *telling them;* but even in these instances, better results are obtained when the salespeople study the goods to discover as much as possible of the information for themselves. The habit and power of *observation* is thereby developed, and *interest* is stimulated.

To whatever extent the teaching process is devoted to *let them tell,* rather than to *tell them,* we may be sure that real *training* is going on; real *preparation* for doing what needs to be done in the presence of a prospective customer.

When we come to the even more productive phase of training—learning to make better use of what already is

known—the let-them-tell procedure, usually in the form of *discussion*, looms increasingly important. The great objective is to stimulate constructive thinking, develop wholesome mental attitudes and broaden points of view.

The secret of it lies in two things: First, *intelligent guidance;* second, *each taking an active part.* Successful sales meetings embody the essentials of planning, acting and controlling quite as much as does the complete profit-making program. In preparing for a meeting, as in preparing to write an ad, we need first to answer the question: *What is to be accomplished?*

Remember always that suitable preparation is a *continuous performance*, and that substantial education in any form invariably requires *time.* He who expects too much is sure of one thing, *disappointment.* Mushroom growth usually means mushroom duration.

Learning something new is preparation in the sense of getting in condition. Learning to make better use of what already is known is preparation in the sense of both keeping fit and getting in better condition. Suitable preparation always is an essential of successful accomplishment.

TEAMWORK AS A SELLING FORCE

It was a real genius who said that cooperation means "all pulling on the same rope, in the same direction, at the same time." Some one else has said that "real cooperation consists in helping out another for the good of the cause when there is no direct obligation to do so." The dictionary says: "Collective action of persons for their common benefit."

Cooperation and team work are the same, of course. The latter term merely suggests more of the pulling-together phase that really counts. The essence of it all lies in making the most of a given opportunity, in applying all of the available forces consistently.

A close relationship exists between cooperation and coordination which the dictionary defines as "harmonious

adjustment." We might call it "impersonal cooperation." Excellent examples are found in conforming local advertising with national advertising, and with special occasions or existing conditions.

The outstanding need along this line is, of course, to make display, advertising and personal contacts pull on the same rope, in the same direction, at the same time. Only when these three selling forces are hitched to the same load—centered on the same merchandise—can we we get their maximum *pulling power*.

Much more thought is required, however, in getting the personal team work which many believe to be among today's great needs in retailing, especially among the smaller stores. The large store can more completely assign specific duties and produce some measure of cooperation through *organization*, but even then there remains ample opportunity for effective teamwork.

Real cooperation depends always upon a wholesome mental attitude. It cannot be *forced*. The core of it, again, is *interest;* interest in the business as a whole; interest that extends beyond immediate influence on the pay envelope; interest that prompts intuitive willingness to make a sacrifice hit.

Real cooperation is *loyalty at its best*. It calls for something more than decent treatment and fair pay. It calls for the highest quality of *leadership*. It depends more upon the mental attitude of the employer than upon anything else. It requires ability and willingness to sense the other fellow's viewpoint, which always is an essential of good leadership.

Effective teamwork consists in each performing his own specific duties well, and also doing anything else that needs to be done if within his power to do it. In its best form it changes Huxley's idea of the most valuable result of all education, "ability to make yourself do the thing you have to do when it has to be done, whether you like it or not," into *desire* to do the thing that ought to be done when it ought to be done.

The necessary team spirit is to be developed only as a *by-product*, indirectly, rather than directly. Telling employes that cooperation is desired and will be appreciated, has but little effect; and that effect may go in the wrong direction. On the other hand, when employes reach that conclusion for themselves, good results are fairly sure to follow.

Well conducted store meetings afford an excellent opportunity for developing the required *mental attitude*. There cooperation can be *discussed;* what it means; what it accomplishes; what examples of good teamwork have been noticed by the employes; what occasions for teamwork may be encountered; how it helps the individual, as well as the business.

Thinking about cooperation leads to cooperation, and one of the best ways to stimulate such thinking is to ask for suggestions on how better teamwork may be secured, how better results may be obtained.

In fact, any discussion of means for improving the business tends indirectly to develop the cooperative attitude or spirit from which all teamwork must spring. The mind is thereby centered on the accomplishment of the store as a whole, as well as on the requirements of the individual job.

Such discussion develops *interest* and encourages *initiative*. Both are necessary. Interest needs to be *developed;* initiative needs to be *encouraged*. When these two qualities are *active*, teamwork has its chance as a selling force.

SALESMANSHIP

Probably no word can boast of a greater variety of definitions than *salesmanship*. This may be due to the fact that salesmanship is the *universal occupation*. We all have *something* to sell, though the *price* is not always in terms of money value.

In its broadest sense, salesmanship is clearly the most comprehensive of all studies because it embodies, in some form, every other study, especially *human nature*. Alexander Pope has told us that "the proper study of mankind

is man." It seems entirely reasonable to assume that no one has reached the limit of possibilities in either the study or the practice of salesmanship.

Yet salesmanship is at heart an exceedingly simple procedure. One rather picturesque merchant who has made a mighty good showing in the art, says it is nothing but "knowing your goods and talking them." Another says it is "getting customers into the store and keeping them coming," obviously taking the all-inclusive point of view.

Two fundamental requirements for successful retail salesmanship are sufficiently outstanding to be classed as *highlights*. These are:

1. A high degree of interest in the work.
2. A good degree of intelligence—*common sense.*

With these as a foundation, the other essentials are sure to come; thorough understanding of the merchandise, continued study of the principles of salesmanship, wholesome living, suitable dress, loyalty, cheerfulness, industry, courtesy, desire to please, and all the rest.

The salesman who has a high degree of interest in the work will read some of the many books on salesmanship, regardless of whether or not the store provides regular training. The reading will not be done with a view to swallowing what is said, but with a view to *thinking about it* and determining the extent to which practical use can be made thereof.

Common sense will recognize that high pressure selling has no place in the retail store where the chief objective always must be the *permanent satisfaction of the customer.*[1] The retail slogan is not *make* them buy, but make them *want* to buy.

Common sense also will indicate that it is far more important to have the customer carry away a good impression of the salesman and the store, than to have the salesman make an accurate *analysis* of that customer. There is one safe rule for all *types* of customers, *courteous treatment.*

[1] This does not apply, of course, to the store which depends primarily on transient trade, operates on the basis of "a sucker is born every minute," and makes glaring lure attract enough of them *once* to keep the business going. This book is not written for stores of that class.

CHAPTER XVIII

HIGHLIGHTS IN CONTROLLING

Controlling is the essential in management which tends to assure the planned result and helps to indicate whether or not we are on the right track. Control is accomplished both deliberately and through the force of habit. Progress depends largely upon the number of things that can be done without consciously thinking about them. Mental contro is essential because thought is the birthplace of every achievement. Our habits make us, but we make our habits.

Successful management requires both current and period control. Current control pertains to capital, merchandise and personnel; period control to assets, liabilities, expenses and incomes. Personnel control includes control of employes and control of self. Time is the one asset with which all men are born equal and remain equal Control of self is the first law of success, and rests primarily in the control of thought. Analysis of time expenditures is especially helpful.

"Last, but not least" carries an impressive meaning because it so often proves literally true. No matter how well all else may have been done, the last step in any operation must be accomplished successfully to make the preceding effort successful.

This applies unquestionably to the basic essentials in the profit-making process, planning, acting and controlling. Without effective control, we cannot obtain deserved reward for the effort devoted to business and the risks assumed therein. The old saying holds good, controlling is "last, but not least."

Control is the essential in management which tends to *assure* the planned result. Without it, the energy devoted to retailing often proves profitless. The last step in the process is missing. The job of management is not com-

pleted. The hard work is done, but the deserved reward is permitted to slip through the fingers.

"He works hard enough, but doesn't seem to get anywhere," has been said truthfully of many a merchant. Wherever that unfortunate condition exists, one of two things or a combination of the two is sure to be the cause. Either the merchant is pulling against too strong a stream of *external conditions* or he is weak in some phase of his management, his planning or controlling or both.

Indeed, the final analysis lays the entire cause at the door of *management.* Certainly so, when the profitless labor is continued in the face of permanently hopeless external influences. This is true because, when the three basic essentials of successful management are all that they should be, the manager soon learns whether or not he is butting his head against a stone wall. He will know when to quit.

Effective control, then, does more than to *assure* the planned result. It *measures* the result and helps to indicate whether or not the planning is based on *possible* conditions. Planning selects the road; acting propels; controlling keeps the road—assures reaching the goal—or, and equally important, indicates that the wrong road has been selected.

Some one has said that half of success lies in knowing our own limitations. To any extent that this may be true, it certainly applies alike to both *internal* and *external* limitations. We also are told that no one can know his capacity until he has tested it thoroughly. In all probability, there are many more cases of attempting too little than attempting too much.

Be that as it may, the point of outstanding importance under *all* circumstances is to make sure of being *on the right track.* We never can get away from the fact that the faster we travel in the wrong direction, the farther we get away from our goal. Control is *essential,* and last, but not least!

CONSCIOUS AND UNCONSCIOUS CONTROL

Just as in planning and acting, much of the controlling must be accomplished unconsciously—without deliberate thinking—through the *force of habit.* In fact, all progress depends largely upon the number of things that are done without conscious effort. Controlling, as applied to retail management, is no exception to this rule. Much of it must be done as unconsciously as the accomplished pianist strikes the right key in the right way, which also is a matter of *control.*

Consider punctuality, for example. Being punctual is distinctly a matter of control; but the *habit* may be so well formed that we appear in the right place at the right time without any particular exercise of either thought or will power. We obtain a broader conception of the far-reaching importance of the principle involved in this simple and well-known fact, every time we stop to consider how completely it applies to every thing that makes us what we are and determines what we accomplish.

We then remind ourselves of the fact that even the things we do unconsciously need conscious or deliberate consideration now and then to check-up, as it were; to make sure that they are as they should be. Unconscious effort can be improved only through conscious effort.

Each of us is, indeed, a bundle of habits. Everyone knows that, of course; but we may be so *familiar* with the fact that we lose its real significance and influence on our individual accomplishment in management, as well as in anything else. We know well enough that *constructive* habits result from *controlled* effort, and *destructive* ones from *uncontrolled* effort. The *big job* lies in making the best possible use of that knowledge.

So we readily see why *control,* in its broadest sense, applies to all that we do and finally determines all that we are. Control applies to mental activity, as well as to physical activity; though first to the former, of course, because *thought* is the *birthplace* of every achievement. We might paraphrase one of Franklin's famous sayings

into: "Take care of your thoughts and your business (or life) will take care of itself."

The peculiar thing about conscious and unconscious effort is the way in which the one develops the other. Our unconscious accomplishment results from our preceding conscious accomplishment, and our unconscious accomplishment determines largely our subsequent conscious accomplishment. Our habits make *us*, but *we* make our habits.

All this is worth considering in connection with *management* because, the more we develop *constructive habits* by means of which we accomplish *unconsciously*, the more our *conscious efforts* can and will be devoted to reaching out for greater accomplishments. Therein, indeed, lies one of the great secrets of success.

CURRENT AND PERIOD CONTROL

Our "basic outline" separates the basic essential of controlling into Current Control and Period Control. Current control obviously involves all that needs to be controlled *currently*, day by day. Period control, on the other hand, requires attention only at *stated periods*, month by month, for example, or year by year.

Period control was discussed in Chap. XV. It falls largely under the classification of *conscious* control, while the major portion of the current control must be accomplished more or less *unconsciously* because of constant recurrence; because it becomes so largely a matter of routine.

We need to remember, in this connection, that nothing can be done without being *planned*, consciously or unconsciously; and that nothing can be done right without being *controlled*, consciously or unconsciously. The real essence in every phase of controlling is in getting *proof of accuracy*, in making sure that the accomplishment is as it was *planned* to be.

Consider, for example, the wrapping of a package. It cannot be done without being *planned;* and if it is *well*

done, it has been *well* planned. Nor can it be done without being *controlled.* The control consists merely in making sure that the package is wrapped *as planned.* With the experienced and competent wrapper, both of these essentials are applied unconsciously, in large measure, through the force of habit.

So it is with everything else that is done in and for the store. Everything that is done properly depends upon *proper* and *proportionate* planning, acting and controlling either consciously or unconsciously applied. This obvious fact is a real *highlight* because progress depends so much upon its recognition and observance.

No matter what proportion of accomplishment may result from *habit,* there always is ample room and need for carefully directed conscious effort under both current control and period control. As mentioned before, progress is impossible without it. Conscious effort always paves the way.

Since the chief factors in period control (assets, liabilities, incomes and expenses) have had previous consideration, let us turn our thoughts briefly to the three factors of current control mentioned in the "basic outline," Capital, Merchandise and Personnel.

CONTROL OF CAPITAL

In the last analysis, the proper control of capital is all there is to any business. We might say that everything else is done to make this control possible because, *finally,* every business is measured by its effective use of capital.

Control of capital answers two questions:

1. How much capital will be needed in a given time?
2. How will the needed capital be obtained?

When these two questions are answered successfully, that is, on a *profit-making* basis, all will be well. Unless they are answered successfully, all else can be of no avail.

The first question is answered by a *complete* budget which covers merchandise purchases as well as the regular expense budget discussed in Chap. VIII. This will take care of

all merchandising operations. When the business undertakes expansion of any kind, not growing directly out of its merchandising operations, the budget must be extended accordingly.

Important—*vastly* important—is this first question because it determines the operations of the business through which its profit must be produced. But vastly *more* important is the second question because it determines whether or not the operations are to be carried on, and because continued success depends upon *how* the needed capital is obtained.

The big point to remember is that every obligation of the business, excepting *permanently invested* capital, must be paid out of the income from merchandising operations; and that all profit must come from the same source. Total income must exceed total outgo; and borrowed money is not a part of the income.

Control of capital requires a thorough knowledge of the real facts of the business. From these the manager must determine what can be done and what cannot be done; how to stay within the bounds of consistent financing; how to keep the business from living on its own fat, which it must do to keep going when income from merchandising operations falls short of the outgo.

The safe way is to operate on the basis of *collections*, money received from merchandising operations. I know of a small-town store that has been in successful operation nearly fifty years and is now manned by the third generation. That store never has known the amount of its sales, but always has known the amount of *cash received*.

In other words, that store never has considered goods as being *sold* until the money was in; yet it always has done the most of its business through charge accounts. An unpaid charge account is looked upon as an unfinished sale or, as rhymed, the sale is made when the bill is paid.

The accounting is far from being what it should, of course; but the plan of operating always on the basis of *cash received* has helped that store to *control* its capital,

to keep its outgo below its merchandising income, which is the only way to make a *merchandising profit.*

THE NEED OF A SURPLUS

The business capital cannot be held under safe control when worked constantly to the full limit of its capacity or power. Like the ball team or the army, the business needs a *reserve force* on which to draw when an emergency arises. The healthy business keeps itself in position to supply more money than it needs. It has a *surplus.*

The Surplus account came into being with the incorporated business in which the invested capital is represented by the Capital Stock account. Its purpose is to keep the accumulated profit separate from the capital, and that is an excellent plan to follow even though the business is not incorporated.

The purpose is to keep the *invested* capital separate from the *produced* capital, the earnings that are plowed back into the business and through which it has its *growth.* Expansion may be accomplished with additional investment, but real *growth* always must come from merchandising operations, from the "root system" of the business.

A reasonable portion of the accumulated profit should be kept in cash or its equivalent, to serve as the first used *reserve force* in time of special need. Keeping that fund in a separate account so its exact condition will be known at all times, has a stimulating influence on the manager because his interest in this safety zone is sure to develop when it is watched and kept in mind.

Credit is, of course, another form of *surplus.* So long as the business can borrow readily (buying on credit is but a form of borrowing), it has a *reserve force* and is in a safe position; but that reserve should be drawn upon when the risk is at minimum and assurance of ability to repay promptly is at maximum.

The idea back of the surplus needs to be applied to credit, as well as to capital. When credit is used to the straining point, control is in danger, if not already lost.

By *building* a surplus of capital and *cultivating* a surplus of credit, the manager keeps himself in control of his business. Unless he does so, he is fairly sure to reach the point where his business will be in control of him.

Every business needs a surplus because every business has its ups and downs, regardless of how well the manager may handle his job. External influences entirely beyond his control make this inevitable, so the game of "in time of brisk business, prepare for slack business," is the safe one to play. Surplus is the answer.

CONTROL OF MERCHANDISE

Chaps. III, IV, V and VI are devoted exclusively to various phases of merchandise control, and it is touched upon in other chapters both directly and indirectly. It might not be technically true to call control of merchandise the most important phase of retailing, but it is safe enough to say that there is no phase of greater importance.

Perhaps the greatest *highlight* in the control of merchandise is found in the old saying that merchandise is money. When the fact back of that saying is recognized and remembered, no manager can possibly be satisfied with taking an inventory once a year to find out how much merchandise is left from twelve months of operation; not a bit more than he could be satisfied with counting the cash occasionally and having no basis for determining whether the counted amount is as it should be.

Of course cash always needs to be controlled more *closely* than merchandise because it presents temptation to more people, is more readily concealed and less readily identified; but the control of merchandise is quite as *necessary* as the control of cash. The effect on *profit* remains exactly the same whether a dollar disappears in the form of merchandise or in the form of cash.

Carefully consider, however, that it may be quite as possible to go to extremes in the balancing of cash as in the *not* balancing of merchandise. Picture the situation of the merchant who carries cash balancing down to the

individual employe, but does not even attempt to obtain a proof of accuracy on his merchandise. Many a store would be in a better balanced condition with less balancing of cash and more balancing of merchandise.

Another highlight is found in the fact that no store needs to check directly against dishonesty, which is nothing more than *intentional* error. When we guard effectively against the unintentional errors that every human being is likely to make, we check automatically against the intentional errors that only dishonest people will make; and the influence on *morale* is decidedly better.

"To err is human," but it also is human to strive to avoid error. Every honest person desires and welcomes *proof of accuracy* because it develops satisfaction. Every dishonest person needs *proof of accuracy* because it removes temptation. The principle remains exactly the same whether applied to the control of cash or the control of merchandise.

CONTROL OF PERSONNEL

No matter how nearly every other phase of the business may be brought to the point of perfection, the final measure of success rests with its *personnel*—the combination of employer and employes—the human side of the business.

Of course it is consistent to say that when the personnel is right, all else will be right; or, going a step farther, to say that when the *management* is right, all else will be right. We never can get away from the fact that, in the last analysis, every business is the measure of its management.

From that angle, everything that is done to help the business must also be done to help the management of that business, and *vice versa.* It certainly does help the manager deliberately to size up his business now and then from both of its *sides*, its material side and its human side.

We are told that the success of every individual depends upon two separate and distinct things; first, upon how well he can do his job; second, upon how well he can get along

with people. Of course we might say that the complete job covers both of these requirements, but the fact remains that they are separate and distinct, that both are necessary in gaining permanent success, and that it proves helpful to study the two requirements separately as well as collectively.

What is true of the individual person in this respect, also is true of the individual business. Many a business has started out with every phase of material requirement well up to standard, but disappeared because it did not have the right *personnel* to form the necessary connecting link between the business and its public.

Control of personnel deserves all the thought and study that can be given it. Everything mentioned in Chap. XVII applies, and much more. The control of material phases is as child's play in comparison because material qualities are much more easily and accurately judged than human qualities.

Since the manager is a *part*, and a highly important part, of the personnel of his business; he has not only to control his employes, but, also, himself. Either of these two divisions of personnel control may be easy or not so easy, since circumstances alter cases. At any rate, it seems worth while to turn our thoughts briefly to each.

CONTROL OF EMPLOYES

Among the captains of industry—heads of large concerns that have extensive pay rolls—ability to select the right man for a given job is recognized as an essential qualification. Some consider it the most helpful of all qualifications, the greatest of all business assets.

While that idea necessarily has more foundation of truth in the large business, the problem of selecting the right person for the job confronts every employer, whether he employ one or many; but that is by no means all there is to it. Selecting the right person is *one* thing; getting the most out of him is *another*.

The first big question arises, of course, in determining whether the person is the *right* one. Much thought has been and is being devoted to the development of a science of judging human characteristics. In the hand of a *real expert,* the results are put to remarkably practical use; but this is one of the fields in which "a little knowledge is a dangerous thing" is especially applicable. There are so many exceptions to the rules that it ordinarily is safer to depend entirely upon the *impression* the applicant makes upon the employer as to his fitness for the job, especially from the standpoint of *interest in the work.*

After selection, *direction!* This involves both training and control. The employe must know *what* is to be done, and *how* it is to be done. Probably no one knows just how much of the ultimate result depends on being fitted *for* the job, and how much depends on being fitted *to* the job; but we all know that both are necessary, and that more time is available for the direction than for the selection.

One man employed a young woman for stenographic work. He discharged her promptly because of incompetency. Another employed her and was impressed with her willingness to try. He concluded it would pay him to *train* her. He started with slow dictation, had her make a list of every word on which she stumbled, encouraged her to study these words and practice them, and had her rewrite imperfect letters with assurance that the need for rewriting would be overcome. It was. She became one of the most valued employes that office ever had.

Scotty Allen is a great dog trainer. He says the first essential is to have the dog understand what is expected of him; and that thereafter a combination of *kindness, sympathy, firmness and appreciation* will do the rest. What a helpful *business sermon* in Scotty's secret of dog training!

THE INFLUENCE OF PAY

Control of employes consists in getting them to do what is expected of them. First of all, the manager himself

must have a definite conception of just what each employe is expected to do. Next, each must have a clear understanding of what he or she is expected to do. There can be no effective *control* without this mutual understanding.

But that understanding is merely a matter of establishing the goal. Though tremendously important—*essential*, in fact—the big job of accomplishment remains. The job may be half done when we know *what* is to be done; yet it must be *done*. The *will to do* plays the big part in the *doing*. It always gets back to that basic element, *interest*.

Pay undoubtedly has a powerful influence on the necessary *interest*. As the old saying expresses it, "Money makes the mare go." Yet the kind of interest that means most to the store, springs from other factors than pay and never can be *forced*. It cannot be obtained without adequate wages, but adequate wages alone will not obtain it.

No method of remuneration is perfect, nor can any one method be best for all stores. The best method for any store is the one that will bring the greatest measure of satisfaction to both employer and employe. The *method*, indeed is of much less importance than the *spirit* behind it.

On the whole, the employer who operates on the basis of how *much* he can pay, rather than how *little* he can pay, probably will make more for himself in the long run. And the best results will be obtained when employes can *sense* this situation for themselves, that is, *know* it without being *told*. That is why the *spirit* back of the method is far more important than the method itself.

An employe works for money, of course; so the influence of the pay always comes into consideration. But the employe who works for money *only*, rarely gives out the best that is in him. An individual's *time* may be bought and controlled with money alone, but not his *loyalty*. The influence of pay is *strong*, but it is not the *strongest* influence.

That is why the manager who makes sure the pay envelope is satisfactory to both himself and the employe,

and then strives to develop *interest* entirely independent of the pay, is fairly sure to have the best control of personnel and to obtain the best results.

CONTROL OF SELF

The manager who said, "The person hardest to manage is myself," stated what is generally recognized as a universal truth which makes every individual a manager and gives each a hard job. Control of self is the first law of success, and rests primarily in the control of thought.

Careful analysis brings us more and more to the conclusion that the greatest force at man's command is *thought,* and that our accomplishment is measured by the thinking we have done, are doing, and will do. Truly, we are what we are because of our inherent qualities plus the *character* and *extent* of our *thinking.*

Since inherent qualities cannot be *changed,* they call for consideration only from the standpoint of making sure that our efforts are directed in the channel of our *possibilities.* They are, of course, our *foundation.* The superstructure is built entirely with blocks of *thought.*

Turning directly to the managerial program, the first demand of thought pertains to the consistent allotment of *time,* the one asset with which all men are *born* equal and *remain* equal. Nothing can prove more helpful in this essential task than a written schedule of how time *is being used,* because nothing can more surely disclose the existing opportunities for investing time to better advantage.

Even a single week of carefully and honestly recorded *time expenditures* will suffice for an analysis which may reveal some highly important information. It may show, for example:

1. That a portion of the time is devoted to detail work which should be delegated to employes.

2. That too little time is devoted to *essential* things, and too much to *non-essential* things.

3. That more time can be devoted to solid reading and constructive thinking, both of which are essential to *progress.*

4. That thought and effort are being devoted to things *beyond* control, which means that the time is worse than wasted.

5. That more time should be devoted to cultivating helpful personal contacts, thus to stimulate thinking and gain new ideas.

6. That time can be better employed for the conservation of *health, which is the only asset more valuable than time.*

7. That more time must be devoted to planning and controlling, even though it necessitates devoting less time to acting.

Above all, such an analysis of *time expenditure* when faithfully evolved and critically studied, will help to recognize the important difference between *worry* and *thought.* Everybody knows that worry is man's most *destructive demon.* Control of self—*proper allotment of time*—eliminates the demon by keeping the mind constantly turned to either *rest* or *constructive thinking.*

THE INFLUENCE OF VISION

When we dig down to the real bed rock of *management*—the *base* on which the "basic outline" rests—we find the two elements that have been mentioned so often in these chapters: Information and imagination.

We might qualify them a bit, and say: Useable information and controlled imagination, because information is *valuable* only to the extent that it is *useable,* and imagination is *constructive* only to the extent that it is *controlled.*

We have mentioned several times, and it is worth mentioning again, that the combination of information and imagination forms that first essential in all management, *judgment;* also that the same combination is the essence of successful planning. Let us go a step farther and say that this bed-rock combination is the stuff out of which our *vision* grows.

Napoleon was right when he said, "Imagination rules the world," because the combination of information and imagination develops our vision of *possibilities*. Without such vision there can be no progress. Said Solomon of old (Proverbs 29: 18): "Where there is no vision the people perish," which applies with equal force to the individual business.

The old idea was that we should *force* ourselves to do things through will power; the new idea is that we will *want* to do the things for which our vision calls. In other words: Will power accomplishes through *force;* vision through *attraction*. Take your choice.

Thinking is, of course, the main spring back of it all. Information and imagination are combined only through the application of *thought*. Thinking leads to *vision*, and vision leads to *reality*. Thought is our most powerful force because it determines our *vision*.

Now, the tremendously important part of it is that the powerful influence of vision goes either in the *wrong* or in the *right* direction, one or the other. The manager who thinks about matters beyond his control—inevitable competition, for example—is to that extent developing the destructive inferiority complex that we hear so much about. He develops his *vision* in the wrong direction.

On the other hand, the manager who thinks about matters within his control—increasing his own efficiency and improving his business, for example—is to that extent developing the constructive superiority complex that we hear so much less about. He is developing his *vision* in the right direction.

Yes, there is a *practical part* of "practical psychology." The manager who controls his thoughts by turning them immediately to *possible improvements*, when the thoughts themselves would drift into the field of uncontrollable influences, will develop a better *vision* of what his business *should be and can be*, a vision that will help him tremendously in setting his goal right and in reaching it.

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